S. HRG. 98-181 PT. 2

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE

COMMITTEE ON APPROPRIATIONS

UNITED STATES SENATE

NINETY-EIGHTH CONGRESS

FIRST SESSION

PART 2 (Pages 1-727)

DEPARTMENT OF AGRICULTURE
FOOD AND DRUG ADMINISTRATION
COMMODITY FUTURES TRADING COMMISSION
FARM CREDIT ADMINISTRATION
GENERAL ACCOUNTING OFFICE

Printed for the use of the Committee on Appropriations

U.S. GOVERNMENT PRINTING OFFICE
17-536 O WASHINGTON : 1983

S181-45

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AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, MARCH 22, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:37 a.m., in room SD-124, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

DEPARTMENT OF AGRICULTURE

STATEMENTS OF:

WILLIAM G. LESHER, ASSISTANT SECRETARY FOR ECONOMICS
JOHN E. LEE, JR., ADMINISTRATOR, ECONOMIC RESEARCH SERVICE
WILLIAM E. KIBLER, ADMINISTRATOR, STATISTICAL REPORTING SERVICE
JAMES R. DONALD, CHAIRMAN, WORLD AGRICULTURAL OUTLOOK BOARD

ACCOMPANIED BY:

J. DAWSON AHALT, DEPUTY ASSISTANT SECRETARY FOR ECONOMICS
STEPHEN B. DEWHURST, BUDGET OFFICER

OPENING REMARKS

Senator COCHRAN. The subcommittee will come to order.

This morning, we are going to be hearing from witnesses representing three USDA agencies which come within the jurisdiction of the Assistant Secretary of Agriculture for Economics.

The Economic Research Service is responsible for providing timely and reliable agricultural economic information that is used by farmers, extension workers, processors and marketers in the private sector, and policy officials at all levels of government. Many of the activities of ERS are done cooperatively with other Federal agencies and with State universities. Work conducted for other agencies is done on a reimbursable basis. For fiscal year 1984, the President is requesting $45 million, an increase of $6.2 million over the amount provided last year, including supplementals.

We also have appearing before the committee this morning the Statistical Reporting Service, which develops and disseminates national and State agricultural statistics and statistical research data such as production, supply, and price estimates for crops and livestock. It also coordinates the Department's statistical programs authorized under the Agricultural Marketing Act of 1946. The budget request for the Statistical Reporting Service for fiscal year 1984 is $55.8 million, an increase of $3.7 million over the amount provided in fiscal year 1983, including a pay supplemental.

The third agency is the World Agricultural Outlook Board. It serves as the coordinating agency for gathering and disseminating information, such as weather and climate data and remote sensing research and forecasting techniques. As it conducts market surveillance throughout the world, it provides consistency, objectivity, and reliability to outlook and situation data developed in the Department. Its budget request this year is for $1.5 million, an increase of $59,000 over last year's level, plus a pay supplemental.

We welcome to the hearing this morning Dr. William Lesher, Assistant Secretary for Economics. He is accompanied by Dawson Ahalt in his role as Deputy Assistant Secretary for Economics; John Lee, Administrator of the Economic Research Service; William Kibler, Administrator of the Statistical Reporting Service; James R. Donald, Chairman of the World Agricultural Outlook Board; and Steve Dewhurst, USDA Budget Officer.

Dr. Lesher, we appreciate your being here and invite you to make any introductory comments you may have. I have a copy of the fiscal year 1984 budget summary of your economics agencies, and I will make it a part of the record at this point.

[The information follows:]

FISCAL YEAR 1984 BUDGET—SUMMARY OF ECONOMICS AGENCIES REQUEST FOR BUDGET INCREASES

[Dollars in thousands]

	ERS	SRS	WAOB	Total
PROGRAM				
Soil and water resource analysis	$1,350			$1,350
Natural research data system	1,000			1,000
Farmland values survey	750			750
Farm production expenditure/cost production	500			500
Crop data improvement		$850		850
CRB electronic system		425		425
LANDSAT data		150		150
LANDSAT data			$50	50
Total, program	3,600	1,425	50	5,075
Percent	(59)	(36)	(85)	(50)
NONPROGRAM				
Restoration of fiscal year 1983 pay absorption	766	798	6	1,570

FISCAL YEAR 1984 BUDGET—SUMMARY OF ECONOMICS AGENCIES REQUEST FOR BUDGET INCREASES—Continued

[Dollars in thousands]

	ERS	SRS	WAOB	Total
NONPROGRAM—Continued				
Increased operating costs	[1] $1,183	[1] $1,695	$3	$2,881
ERS relocation	545			545
Total, nonprogram	2,494	2,493	9	4,996
Total, all agencies	6,094	3,918	59	10,071

[1] Includes $500 and $488, respectively, for fiscal year 1983 congressional reductions not deleted by OMB from fiscal year 1984 base.

Note.—In the aggregate, economic agencies are not seeking any increase in staff-years. There is a 2 staff-year realinement of administrative support to the WAOB to meet changing workload levels. Total appropriated staff-years for ERS increased by 50 but is offset by a 50 staff-year reduction in allotment accounts. When compared to our original fiscal year 1983 ceiling levels, the economic agencies are showing a net decrease of 48 staff-years in fiscal years 1983 and 1984.

STATEMENT OF DR. WILLIAM LESHER

Senator Cochran. At the outset, I observed that these three agencies are coming in for an increase this year, so you are to be congratulated, I suppose, or they are, for being able to, in these tight budget times, get a little extra attention from OMB and the Department. We congratulate you.

Dr. Lesher. Mr. Chairman, it is a pleasure to be here this morning. I have about 2 or 3 minutes of introductory remarks. Then, would you like to hear the remarks of each of the agencies and then questions?

Senator Cochran. I think so. That is best. I will reserve my questions until everyone has made a statement. I would encourage you to make summary statements, because all prepared testimony will be included in the record in full.

Dr. Lesher. Mr. Chairman, I would just like to say that the agencies before you today are the agencies in the Department of Agriculture that provide all the statistical data and analysis that many people depend on. They are all career persons; they are all nonpolitical, and they all do a super job. I have said it before, and I say it again, that they work very hard. They take their jobs very seriously, and I am proud to be associated with them.

BUDGET INCREASES

Concerning your remarks about a small, a very modest increase in their budgets, Mr. Chairman, when I first came to USDA, we wanted to make sure that we were spending money on things that were necessary. Therefore, we eliminated some things, which, although they were important, were not as necessary as other things. The record would show that we made some fairly substantial budget cuts over the last 2 years.

What we are finding out, Mr. Chairman, is, that beyond a point, whether you have a farm program or soil conservation program or any other program, you need data and analysis to operate. That is the beginning, and I strongly feel that you need to keep a core set of activity going to insure that the other decisions that Congress or the executive branch or others make are based on factual information. That is the main reason, Mr. Chairman, that we are coming in with a small increase, just to keep our core of activity intact.

Another reason for a small increase is that we are realining some budget activity, particularly the ERS work in natural resources. We are trying to do a better job of doing more useful things for the Congress and for the public at large, for the Secretary of Agriculture, rather than activities that we feel are not as important. There are funds in this request that used to be in the SCS budget for which we are seeking a direct appropriation.

[CLERK'S NOTE: Subsequent to the hearing, the following information was provided in further response to Senator Cochran's question.]

The justifications for these increases as presented to OMB, and which we want to emphasize before this committee, include the following rationales:

In fisal years 1982 and 1983, reductions in selected statistical surveys were made, and a user charge system was implemented for ERS and SRS publications, providing for additional funding cuts in the areas of printing, postage, and distribution. In addition, existing resources have been redirected from lower to higher priority areas in lieu of requests for additional funds.

Farmers and other agriculture industry users have expressed concern regarding the reduced reliability of certain statistical data series which are relied upon in a wide range of financial transactions and farm management decisions and are of interest to the Congress. Therefore, a portion of the requested increase for SRS includes upgrading of data series on farmland values, farm production expenditures, and cost of production by commodity.

Policy and program decisions affecting current and future program operations involving substantial appropriation levels are based in part on data and analysis provided by the economics agencies. These areas include soil and water conservation, farm commodities, rural development, and food and nutrition.

Dr. LESHER. With that, Mr. Chairman, I conclude my remarks. Perhaps, we can start with Bill Kibler from the Statistical Reporting Service.

Senator COCHRAN. Fine.

STATISTICAL REPORTING SERVICE

STATEMENT OF WILLIAM E. KIBLER

Mr. KIBLER. Thank you, Mr. Chairman. It is a pleasure to be here and present the 1984 budget to this committee, which has been very supportive of our work during past years.

[Mr. Kibler's statement follows:]

STATEMENT OF WILLIAM E. KIBLER

Mr. Chairman and members of the Committee, it is an honor for me to appear before this distinguished Committee again to represent the Statistical Reporting Service (SRS). It is recognized that you have supported a strong agricultural statistics program in the U. S. Department of Agriculture over the years, and it is my privilege to present to you the SRS FY 1984 Budget.

The SRS is responsible for the USDA's program of collecting and releasing national and state agricultural statistics. In addition, research activities for improvement of statistical data and reimbursable survey work for other Federal, State, and private agencies are performed.

The agriculture statistical data series developed by the SRS are essential to the farmers, ranchers, processors, and other agribusinesses in the development of production and marketing decisions. The data are key to economic research and analyses, legislation, agricultural programs, and related activities.

Fiscal Year 1984 Budget Request

The fiscal year 1984 budget request is $55,778,000. This request includes $850,000 for the initiation of objective yield estimating procedures for grain sorghum, rice, and sunflower crops and a program of crop yield validation surveys. Other budget increases include $425,000 for development of an Electronic Report System to allow users rapid electronic access to our data, $150,000 for purchase of remote sensing data from NOAA, and $2,493,000 for increased operating costs including absorbed pay costs.

Major Activities of the Statistical Reporting Service (SRS)

The primary activity of the SRS is to prepare and release accurate and timely statistics concerning the agricultural economy. Annually, we issue about 300 reports covering 120 crops and 45 livestock items.

The SRS program of estimates was significantly modified in 1982 to stay within funding availability. The elimination and/or reduction in frequency of reports was done with the goal of retaining quality of estimating programs, and to provide at least an annual estimate for the commodities judged to be most important. This modification was done after critical internal review, using input from previous contacts with data users, and with the review and concurrence of other agencies, the Department, and the OMB. In FY 1983 the estimating program is being adjusted to provide increased coverage as directed and funded by the Congress. The quarterly reports will be restored to a monthly basis for cold storage; dairy products; eggs, chickens, and turkeys; livestock slaughter; and milk production. In addition, a monthly catfish processors report and an annual mink report are being reestablished.

Efforts have been made to work with agricultural organizations and other Government agencies to find alternative sources of funding for restoring some high priority data series to ensure continuity of data. Meetings were held with key data users representing commodity groups, farm organizations, agribusinesses, and advisory groups to discuss possible program modifications, data series content, and cooperative trust fund arrangements available to be used for private funding of eliminated data series. Four of these groups actually provided private funds to reinstate statistical series eliminated. In addition, State cooperators provided supplementary funding for continuation of a similar number of reports.

The production and marketing data that are developed and released by the SRS include: number of farms and land in farms, acreage, yield, production, and stocks of grains, hay, oilseeds, cotton, tobacco, fruits, vegetables and specialty crops; inventories and production of hogs, cattle, sheep, goats, and wool, catfish, poultry, eggs, and dairy products; prices received by farmers for products, prices paid for commodities and services, and related indexes; cold storage supplies, and related areas of the agricultural economy.

The release of the SRS statistical reports was placed on a user fee basis in 1982, again as a means to operate within available funding, and reflecting the Administration's efforts to implement user fees. Reports are provided free to the survey respondents, news media, Congressional offices, and other Federal agencies. All others must pay a subscription fee for the reports, most of which are published through the Government Printing Office. This procedure has allowed SRS to contribute its share of the overall reduction in government spending by taking a significant reduction in resource requirements to provide basic agricultural statistics. This concept allows the agency to maximize the amount of agricultural data developed. This system is operating very satisfactorily and has provided the savings anticipated.

The 44 SRS field offices serving the 50 States are operated using joint cooperative agreements with the local State Departments of Agriculture and/or universities. These arrangements are very beneficial to all cooperating parties because efficiencies in the development of basic agricultural statistics are increased. This allows for the development of increased State and county data while at the same time limiting the burden on the survey respondents.

Meetings are continually held to receive input on needed coverage and priorities of data series from the data users. Representations from the commodity groups, farm organizations, universities, State government, and agribusinesses allow the SRS program to be responsive to the needs of the agricultural sector. A related aspect is the briefings provided to producers, commodity group representatives, farm organizations, and press during the "lockup" conditions for major crop and livestock reports. These sessions provide information on statistical methodology and crop reporting procedures that greatly enhance the understanding of the participants and other persons with whom they later share their experience.

The SRS also conducts a program of research involving improvement of the reliability and accuracy of its statistical data. A major portion of the research resources are devoted to the use of remote sensing data in the development of new techniques and methods for acreage estimation and crop condition assessment through the AgRISTARS program.

Reimbursable surveys are conducted by SRS for other Federal, State, and private agencies on a reimbursable basis. It is much more efficient for the SRS to do this work than for each agency to conduct the survey themselves. SRS also provides technical assistance in the development of agricultural estimating programs in foreign nations on a reimbursable basis.

Fiscal Year 1984 Plans

Grain sorghum, rice, and sunflowers are major crops not currently estimated using the objective yield probability based procedures. The increasing importance of these crops requires estimates with greater accuracy and reliability. An increase of $850,000 is requested to implement objective yield surveys for these three crops, and to institute an annual yield validation program. This validation program would involve providing a quality check on production estimation procedures.

An increase of $425,000 is requested to develop a system providing the data user with rapid electronic access to SRS reports at reduced costs. The technical capability now exists to provide the dissemination of data in this manner. This increase would allow SRS to develop procedures to adopt the technology to our programs, and to place our historic data in a compatable machine readable format.

The budget request includes $2,493,000 for increased operating costs. These resources are needed to maintain the core program because of increased costs of salaries, equipment, telephone service, supplies, and ADP related items.

An increase of $150,000 is requested to support the purchase of remote sensing data from National Oceanic and Atmospheric Administration (NOAA). This increase is necessary to restore the funding level originally proposed for FY 1983. If current negotiations with NOAA do not result in a lower user charge, these funds will be needed to acquire the remote sensing data needed to perform the planned work in the AgRISTARS program.

I have established an internal group to develop a Long-Range Plan for SRS similar to that submitted to this Committee in the late 1950's. The group is seeking input from a broad segment of data users in both the public and private sectors, reviewing the current methodology and policies in the agency, and outlining recommendations for improved methodology and the types of data needed for agriculture in the future. It is expected that this Plan will better enable the agency to meet future data needs with consistent or improved quality standards within restricted resource availability.

This concludes my statement, Mr. Chairman, and I will be happy to respond to your questions.

BIOGRAPHICAL SKETCH

Wilbert H. Walther

Mr. Walther grew up on a general crop and livestock farm in Williamson County, Texas. From 1946-49, he served in the Air Force, with 2 years in Korea. He received B.S. and M.S. degrees in agricultural economics from Texas A&M University in 1953 and 1954, respectively.

Mr. Walther began his career in crop and livestock work in the New Mexico State Statistical Office as Assistant Statistician in Charge in August 1954. From there he moved to the Agency's Kansas office where he served from 1959-63. From 1963-75, he held various progressive positions within the Statistical Reporting Service in Washington, D.C., including commodity statistician in the Crops Branch; Head, Objective Yield Section; Head, Livestock Section; and Deputy Chief and Chief, Livestock, Dairy and Poultry Branch. In November 1975, he accepted the position as Statistician in Charge of the SRS Texas State Statistical Office, which has one of the largest Federal-State cooperative crop and livestock reporting programs in the Nation.

Mr. Walther returned to Washington, D.C. in April 1980 as Director, Survey Division. In this position, he had direct responsibility for the Agency's nationwide data collection, data processing, and data services activities. On April 5, 1982, he assumed his present position as Deputy Administrator, SRS, and Chairman, Crop Reporting Board.

STATISTICAL REPORTING SERVICE RESPONSIBILITIES

Mr. **Kibler**. As you pointed out in your opening statement, we are responsible for collecting and releasing the State and national agricultural statistics, and we do believe, as you indicated, these data are terribly essential to farmers, ranchers, processors, and agribusinesses in their production and marketing decisions, and to the executive and legislative branches in making policy decisions. This activity involves releasing accurate and timely crop and livestock information for about 300 reports during the year covering about 120 different crops and about 45 different livestock items.

I might comment on our 1983 program, because we made some program adjustments in 1982 to balance costs with our budget availability. In 1983, we did restore some quarterly reports—the cold storage, dairy products, eggs, chickens and turkeys, livestock slaughter, and milk production—and reinstated the monthly catfish processors survey and the annual mink report that were funded in 1983. We anticipate continuing those surveys and reports through 1984.

USER FEE

In 1982, we put all our statistical reports on a user fee basis. This means that we are giving to our respondents that provide the basic data for our crop and livestock reports, copies of these reports free; but we are charging the other people, other than the news media and congressional and Federal offices, a user fee. These reports are published through the Government Printing Office and people purchase subscriptions from them. We think this system is operating very effectively and efficiently, and we have been able to capture the savings we anticipated.

COOPERATIVE PROGRAMS

One of the strong points of our program is the cooperative programs we have with all 50 States, mostly through the State Departments of Agriculture. These arrangements are beneficial, because they are efficient in terms of allowing us to combine resources of the State and Federal governments and to not call on the farmers and ranchers for any more basic information than is required. We are also happy, in spite of short revenue flows in the States, that our cooperative programs have been continued on essentially the same basis or with a little increase over the last year.

DATA USER MEETINGS

One other very important thing is that we continually hold meetings with data user groups. Two of those meetings were completed recently to talk about gaps in our data system or improvements in our activity that need to be made. We get good inputs and suggestions from the people attending these meetings.

Another item we implemented recently is bringing key data users from around the country into our headquarters and briefing them on our crop reporting procedures. They go into the crop reporting board lockup area and see what we do in analyzing the data that is released to the public. We find that this activity has been very beneficial in helping people understand our program.

PROGRAM INCREASES

We have three program increases and one operating increase in the 1984 budget. We propose in 1984 to include grain sorghum, rice, and sunflowers, which are major crops, into our objective yield probability based procedures. The increasing importance of these crops requires some improvement in the accuracy and reliability of those estimates. These are improvements that have been suggested by the data users. Implementation of the objective yield procedures provide for us to go into the fields and make counts and measurements on these three crops and do them in essentially the same way as it is now done for corn, soybeans, wheat, and cotton.

We also are requesting an increase of $425,000 to develop a system that will provide data users with rapid electronic transmission of information. We are seeing now with the advent of minicomputers and microcomputers and rapid data transmission the need for people to get that information as soon as it is released in Washington, D.C.

In addition to that, we are requesting $150,000 to support the additional purchase of remote sensing data through NOAA, which now has responsibility for disseminating that information.

In addition, Mr. Chairman, we are requesting about $2.5 million to cover increased operating costs, such as salaries, telephone service, equipment, and other items.

We have established an internal group to develop a long-range plan for SRS similar to the one this committee reviewed back in the fifties to tell us where we ought to be going over the next two decades. We hope to finish this plan during 1983 and will be reporting to you on it later. This group has been out seeking input from data users all over the country in both the public and private sector. They are looking at our current methodology and policies, and we are going to examine what programs we ought to pursue in the next decade to keep up with the changes in agriculture. That plan will be circulated to the data users, and we will be asking for further comments and look forward to it providing a good basis for our future planning.

That concludes my statement.

Senator COCHRAN. Thank you, Mr. Kibler.

Mr. Lee?

ECONOMIC RESEARCH SERVICE

STATEMENT OF JOHN E. LEE, JR.

Mr. LEE. Thank you, Mr. Chairman. I am John Lee of the ERS. I have with me today Dr. George Hoffman, who is the Associate Administrator, and other senior members of the ERS staff.

[Mr. Lee's prepared statement follows:]

STATEMENT OF JOHN E. LEE, JR.

Background

The Economic Research Service (ERS), originally established in 1961 to carry out functions authorized by the Agricultural Marketing Act of 1946, was reestablished on October 1, 1981, after having been combined with the Statistical Reporting Service for 3 years and with the Agricultural Cooperative Service for 2 years. The history of organized economic research in USDA, however, dates back to 1922 with the establishment of the Bureau of Agricultural Economics, ERS's predecessor.

Mission of the Economic Research Service

The principal function of ERS is to provide timely and reliable economic information on U.S. and global agriculture and food, natural resources, and rural communities. ERS is a major source of objective economic information about domestic and world agriculture, the food and fiber industry, land and water, and the rural economy. Farmers, research and extension workers, private analysts, processors, marketers, input suppliers, consumers, and Federal, State, and local government policy officials make their decisions with the aid of ERS agricultural economic research results, forecasts of major agricultural economic indicators, policy analyses, and data. ERS coordinates research efforts with other publicly-funded research institutions, principally other USDA and Federal agencies, and State universities. And, as a staff agency which conducts USDA's economic research, ERS has the responsibility to assist the USDA program agencies (except Forest Service) in meeting their economic information needs. This capability is utilized in developing Departmental positions on proposed legislation and in the conduct of Federal programs which affect the rural population.

ERS's organization emphasizes four major areas:

Economics of domestic agriculture. The economic performance of the agricultural production and marketing system is the focal area of ERS investigations.

ERS is recognized as the principal unbiased source of economic information on the performance of the agricultural system and its relationship to the rest of the economy. ERS information on demand and supply conditions, the outlook for commodities, inputs, finance, farm income and expenses, and food prices, and the effects of public policies and regulations is essential to many users, including farmers, input suppliers, marketing firms, consumers, and policymakers. ERS measures the economic performance of the agricultural system in terms of its efficiency, effectiveness, viability, competitiveness, productivity, resilience, and flexibility to accommodate the changing needs of all participants.

Foreign demand for U.S. exports. The need for economic research on exports and trade has increased with the growth in foreign demand for U.S. products and an increasing dependency of U.S. agriculture on foreign markets. ERS is a major source of economic information on world agricultural production, consumption, trade, and their impacts on U.S. agriculture. ERS monitors international agricultural developments and analyzes their effects on trade, and, in turn, on the U.S. farm and food sectors. Economic research is focused on international policy and program issues that affect the world food system.

Land and water resources. Our major goals in this area are to (1) identify and quantify principal factors affecting the supply and quality of land and water, (2) estimate future supplies of land and water, and (3) assess the effects of alternative policies and programs with respect to natural resources. For example, we study the impacts of alternative policies and farm programs on soil erosion, sedimentation, and water depletion. And we conduct empirical studies evaluating the resource implications of policies and programs aimed at, for example, increased agricultural exports or integrated pest management.

Rural America. ERS has the responsibility to study economic and social conditions that affect all rural people, whether they live in the open country, on farms, or in rural towns and cities. Today, 9 out of 10 rural residents are nonfarm people, and make their living from nonfarm jobs. While rural population in recent years has grown more rapidly than urban population, a larger share of rural people are poor, and rural people generally have more limited access to public and private facilities and services. Our aim is to better understand economic and social relationships in rural areas, determine the causes of problems of public concern, and evaluate the costs and potential benefits of alternative solutions.

Changes Proposed for 1984

The ERS program reflects responsiveness to the ever-changing needs of our clientele who are requesting results of economic research on all aspects of the agricultural and food system and rural America. We have redirected our resources to strengthen the core program of research on national policy, program evaluation, and situation and outlook. These redirections have been made in response to national issues and reflect the goals of the Administration to increase efficiency in agricultural production and marketing and to conserve natural resources. We have made selective marginal adjustments to a program that is soundly focused on national and international problems significant to policymakers and rural America and that provides essential information for efficient production and marketing.

We are responsive to the needs of the users of our economic analyses, and frequently seek the advice and recommendations of Federal, State, and local agencies, the private sector, and other research and statistical organizations.

We propose a $45.0 million budget for 1984, a $6.1 million increase from 1983, in terms of our own appropriated funds. Program changes proposed for 1984 are as follows:

This budget would provide for an increase of $2.35 million for expanded soil and water resources analysis and data collection. Included in this item are two key initiatives. The first initiative, totaling $1.35 million, would be to expand our current efforts to deal with critical regional and national soil and water conservation issues. This proposal was developed jointly by ERS and the Soil Conservation Service (SCS), and is strongly supported by the

Department. With these additional resources, we would be better equipped to examine trends concerning the implementation of conservation practices, the costs involved, and the potential for government involvement to encourage improved management practices aimed at maintaining the long run productivity of American agriculture. In implementing this expanded effort, ERS will work closely with conservation program agencies and with policy officials, and with the Congress. The requested funds would be used to support many of the ERS staff previously funded by the SCS to conduct river basin studies.

The second initiative, totaling $1 million, would be to implement the first of several annual surveys. The Department has major programs of data gathering on the physical aspects of soil and water resources; however, comparable economic data are lacking. With these additional resources, we would survey landowners to determine what soil and water conservation measures have been and could be implemented. While these surveys would be independent of the expanded analysis proposal, the effectiveness of our economic analysis would be greatly enhanced by the availability of the additional data.

The overall benefits of these initiatives would be to contribute to informed public policy decisions on the management of soil and water conservation programs. The work would be of significant value to Congress in addressing soil and water conservation problems through legislative action. The requested increase in ERS is partially offset by funding and staffing adjustments in other Departmental programs.

We propose an increase of $750,000 for our farmland values survey. This increase is needed to maintain and improve the current data on land values, transfers, and rentals, to maintain at least the present level of State coverage, and to put the series on a firm statistical and conceptual basis. The quality of the farmland values data series has declined in recent years to the point where its reliability is questioned by major users. The data are used widely in farm appraisals and valuations, and accepted by the Internal Revenue Service for estate and gift-tax evaluation purposes. As farmland accounts for about two-thirds of total farm assets, these data are critical for the balance sheet and other economic indicators of the farm sector. Also, they are commonly used to index farm leases, grazing fees, contracts for sale, and other agreements. The continued acceptance of farmland value data in these applications, and for use in economic analysis and projections, is threatened if the data are allowed to deteriorate further.

We propose an increase of $500,000 for farm production expenditures and cost of production surveys. Increased survey costs of data collection in recent years have significantly reduced the reliability of these survey data (particularly at the State level). The increase would help restore minimally acceptable levels of accuracy and reliability of primary data. Data collection would be restored to approximately the 1979 level for the major and essential indicators of farm receipts and expenditures, production costs, and financial accounts.

We propose a one-time increase of $545,000 for relocation costs. Our lease with Group Hospitalization, Inc. (GHI), 500 12th Street, S.W., expires June 30, 1984. GHI has refused to renew the lease. The requested funds would be for relocation costs not covered by GSA.

Our final proposed increase is for $1,949,000. This includes $1,183,000 for increased nonsalary operating costs and $766,000 to restore pay cost increases absorbed in 1983.

These are difficult times, not only for farmers, but for all segments of the economy. In view of this, and the President's initiative to reduce inflation and constrain the growth in Federal expenditures, we are more committed than ever to assuring that all resources available to ERS make the maximum contribution to the service of American agriculture and American society in general. We appreciate the continued support and interest of this Committee as we attempt to achieve this goal.

Thank you for the opportunity to discuss our program with this Committee. I would be pleased to try to answer any questions.

GOALS OF ECONOMIC RESEARCH SERVICE

Mr. LEE. I, too, appreciate very much the opportunity to be here and the support of this committee over the years. In ERS we have a strong feeling that we need to earn that support and that we need to make the best possible use of the taxpayers' dollars at our disposal.

We have been continually going through a process of trying to sift out lower priority activities in favor of higher priority activities. We thought we had done a pretty good job until Bill Lesher came along and advised us there was a lot more we could do. We have been particularly hard at work for the past 2 years trying to sort out the things that are important in our program and do a more useful job for the Congress, the Department, and the general public. By useful, I mean that we must produce timely, relevant, accurate, and understandable information that people can use in looking at policies, looking at programs of the Department, policies of the Congress, and issues confronting the public.

You have my prepared statement. I would like to make a couple of additional comments.

We have had a number of meetings with other people trying to get a handle on what kind of information would be most useful. We have had literally dozens of meetings with constituents, including Congress, staffs of other Federal agencies, farm and rural groups, commodity groups, and representatives of all phases of agribusiness and other research organizations, including the land-grant universities. These contacts give us very useful feedback on how to improve our programs.

LONG-TERM PLAN

We have initiated a long-term planning activity looking to the rest of this decade and are using that long-term planning framework to develop our program priorities and thrusts that will guide our year-to-year programs. In the development of that long-term plan, we hope to obtain your inputs and views through talking with members of your staff and the staff of members of this subcommittee.

RECENT ACTIVITIES

This past year was very productive for the agency. We produced hundreds of staff papers and analyses for the Secretary and program agencies of the Department to carry out their mandated responsibilities. We released over 2,400 reports and studies to the public. We recently initiated a program of nationwide electronic dissemination of our situation and outlook reports, and we have plans to expand users' electronic access to other ERS information.

During fiscal year 1982, the staff of ERS responded to over 44,000 individual written and oral inquiries from the public.

Finally, we have taken a number of initiatives to improve the effectiveness of ERS and the agricultural economic departments of the land-grant universities in combining our resources to address the most serious problems facing agricultural producers and industry. We believe we have a unique opportunity and, therefore, responsibility to be useful to this large group of researchers and research establishments and to exercise informal leadership within the USDA-land grant partnership.

I will be happy to respond to your questions and appreciate again the opportunity to be here.

Senator COCHRAN. Thank you.

Mr. Donald?

WORLD AGRICULTURAL OUTLOOK BOARD

STATEMENT OF JAMES R. DONALD

Mr. DONALD. Thank you, Mr. Chairman. I too am pleased to have the opportunity to discuss the fiscal year 1984 budget request of the World Agricultural Outlook Board.

[Mr. Donald's statement follows:]

STATEMENT OF JAMES R. DONALD

Overview

The World Agricultural Outlook Board (WAOB) is a pivotal element in the U.S. Department of Agriculture's (USDA's) ongoing effort to ensure that its commodity information system is responsive to the realities of today's rapidly changing world agricultural sectors. The primary objective of the WAOB is twofold: to optimize the accuracy, objectivity and timeliness of USDA's economic intelligence on worldwide developments which influence the domestic agricultural system; and to speed the flow of that information to producers, consumers, policymakers and the general public.

A primary WAOB function is to coordinate and review for accuracy and consistency all USDA estimates and analyses relating to international and domestic commodity supply and demand conditions. WAOB also continues to maintain liaison with international organizations, such as the United Nations Food and Agriculture Organization, and domestic agencies, such as the Commodity Futures Trading Commission.

WAOB is the Department's focal point for weather and climate information and impact assessment, and these monitoring activities within USDA are coordinated by the WAOB Chairman. Remote sensing activities in USDA are also coordinated by the WAOB Chairman. Space sensors and ground-based sensors which communicate through space relay systems have potential to improve the accuracy and timeliness of earth resources data and crop condition information now collected on the ground.

Specific Functions and Progress

WAOB has intensified efforts to integrate the Department's world agricultural intelligence system. WAOB continues to provide leadership for the interagency commodity estimates committees (ICECs) and has sought to expand the ICEC's analytical role in current condition and impact assessment. These committees include representatives of the Economic Research Service (ERS), Agricultural Stabilization and Conservation Service (ASCS), Foreign Agricultural Service (FAS), Agricultural Marketing Service

(AMS), and WAOB. All committee members are USDA professionals with responsibility for developing official estimates of supply, utilization and prices for the major agricultural commodities. It is through the interagency membership of these committees that the various USDA agencies work together in a coordinated effort. Development and use of new analytical tools and evaluation of forecasting performance has become an ongoing responsibility of each committee.

Weather, as much as any economic or policy development, continues to be a significant and most unpredictable variable underlying agricultural production and prices. Consequently, USDA has placed a high priority on incorporating weather impact assessment in all analyses. The focal point is the Joint Agricultural Weather Facility (JAWF), operated jointly by the Board and the National Oceanic and Atmospheric Administration (NOAA). This facility, located in the South Agriculture Building, hourly monitors and assesses global weather events and their probable impact on agricultural output. JAWF analyses are a key ingredient in much ICEC work.

Key agricultural areas in every major producing country, including the United States, are identified by JAWF, and meteorological data from relevant weather stations around the world are analyzed daily relative to the stage of crop development. High-speed computer systems are used to process, analyze and disseminate the information for public distribution, primarily through the Weekly Weather and Crop Bulletin.

In addition to regular briefings and reports, JAWF provides special alerts when critical weather events may affect U.S. or world agriculture. This early warning capability diminishes the likelihood that farmers and other participants in the agriculture system would be caught off guard by a crop failure or some other significant global event related to agriculture.

Since fiscal year 1979, when WAOB led an interagency effort that led to the development of a monthly World Crop Production report, the report has been prepared under secured (lock-up) conditions. This was the first USDA publication to provide integrated forecasts of crop production in all major world growing regions. This report, initiated in July 1979, is prepared monthly in a manner similar to the Crop Reporting Board's U.S. Crop Production report. Each month, FAS and ERS commodity analysts and country specialists meet with Board economists and weather specialists to evaluate attache analyses, country reports, weather information and all other available intelligence to prepare major crop production estimates for the key countries of the world. This information, along with U.S. crop estimates, is then released to the public after the commodity markets have closed.

Secure conditions are maintained during report preparation to prevent premature or illegal access to the data. By releasing the information immediately after the market closes, all users have simultaneous access to the data.

The second stage in the integrated system's evolution was the implementation in October 1980 of a procedure to develop and release the World Agricultural Supply and Demand Estimates report, either following the monthly World Crop Production report or after significant events affecting the global supply/demand balance. This report provides a complete assessment that includes the supply/demand balances for all the major commodities of other primary producing and consuming countries and the implications for trade, as well as supply/demand information of the overall domestic livestock/feed complex.

With world meat consumption on a steady upward trend and continued strong efforts to upgrade diets in many countries, including the USSR, it became critical that the integration of U.S. and world supply and demand estimates for crops as well as livestock be completed. Thus, the third stage of the integrated system's evolution occurred in the past year with addition of livestock estimates to those for other commodities.

Recent Activities

As a result of funding provided in fiscal year 1981, the Crop Reporting Board of the Statistical Reporting Service and the WAOB are now co-located in a single lock-up facility to maximize security conditions for compilation and analyses of world crop data and supply/demand estimates. This physical arrangement with the Crop Reporting Board facilitates interaction between domestic and international assessment activities and eliminates the movement of highly sensitive data between two separate lock-up areas.

While striving to enhance analytical capability, we also recognize that the potential for rapid information dissemination has expanded tremendously in recent years. We are taking increasing advantage of opportunities which exist to improve the timeliness of our information. We continue to review the alternatives available for placing information from the World Crop Production and World Agricultural Supply and Demand Estimates reports in the hands of farmers and other users as quickly and effectively as possible. Alternatives include effective use of extension personnel, land grant universities, state farm organizations, and others. The World Crop Production report and the World Agricultural Supply and Demand Estimates report are transmitted electronically upon release to all states which have access to the USDA extension information system. Also, since the telecommunications field has expanded rapidly in recent years, we will further tap that technology in the year ahead by increased electronic dissemination of these reports.

As part of its effort in information dissemination, WAOB again directed USDA's annual agricultural Outlook Conference. The 59th in USDA history, the Conference drew nearly 1,300 representatives of Government, agribusiness, academia, and the press.

Budget Request

Our total budget request for fiscal year 1984 is $1,522,000. This represents an increase of $59,000 over the fiscal year 1983 level of $1,463,000. Of this total increase, $50,000 is requested to restore full funding for the acquisition of LANDSAT remote sensing data to the level originally proposed for fiscal year 1983. The remaining $9,000 increase is requested for the annualization of pay increases effective in fiscal year 1983, and to meet other higher general operating expenses.

This concludes my statement, Mr. Chairman. My associates and I are prepared to answer any questions you may have concerning the WAOB programs and budget request.

BIOGRAPHICAL SKETCH

NORTON D. STROMMEN

Norton D. Strommen is Chief Meteorologist with the World Agricultural Outlook Board. In this capacity, he is the principal staff specialist in atmospheric sciences for the Department of Agriculture and serves as the principal scientist and advisor to Department of Agriculture officials on atmospheric science matters.

Prior to assuming his present position in April 1980 with the Department of Agriculture, Dr. Strommen had spent the previous 20 years working with the Department of Commerce, National Oceanic and Atmospheric Administration in forecasting, climatology, and related international scientific assignments. While serving as Director, Center for Climatic and Environmental Assessments he was awarded the Gold Medal, the Department's highest award for scientific achievement, for work on the multiagency, Large Area Crop Inventory Experiment.

Dr. Strommen was born in Stoughton, Wisconsin in 1932. He received his Ph. D. in Geography (Climatology) from Michigan State University in 1975.

PROGRAM PRIORITIES

Mr. DONALD. You gave an excellent overview of what our responsibilities are, but I would like to further comment about what we do, about the process, and how we go about doing our work, Mr. Chairman.

First, the World Board is a focal point for the Department's economic intelligence system. One area where we want to see improvement is in economic forecasting. I list that as a very high priority.

The Board is a small agency. We work with other USDA agencies in identifying areas where we need additional data and analysis which will result in better forecasts. For example, we work with the Economic Research Service to improve forecasts of domestic crop supplies, use, and price and with the Foreign Agricultural Service to improve international crop supply and use estimates. Each month, Mr. Chairman, we bring together representatives from those agencies and develop official USDA estimates of world and U.S. supplies and use for crops and livestock.

The World Board works with the National Oceanic and Atmospheric Administration in areas of weather, climate, and remote sensing. For example, we incorporate weather assessments in our production forecasts for major producing countries around the world. This is a byproduct of the combined effort within the Joint Agricultural Weather Facility that is staffed by the Board and by NOAA.

The World Board is also placing high priority on rapid dissemination of forecasts to farmers. This past year, we expanded electronic transmission of forecasts through the Extension Service network, and we are now exploring a possibility of even wider electronic distribution of weather reports.

BUDGET REQUEST

As you indicated, Mr. Chairman, our budget request for fiscal year 1984 is $1,522,000. We are requesting 4 percent, or a $59,000 increase over fiscal year 1983. We plan to use $50,000 of that increase to restore full funding for the acquisition of LANDSAT remote sensing data to the original proposed fiscal year 1983 level. The remaining $9,000 is for annualization of pay increases and other higher operating costs.

Mr. Chairman, this concludes my comments. My associates and I will be glad to respond to any questions about the World Board program and budget request.

PAYMENT-IN-KIND PROGRAM

Senator COCHRAN. Thank you very much, Mr. Donald.

I think today is the day the Secretary is going to release information on the level of participation in the payment-in-kind (PIK) program. Has the release date passed? Can you tell us anything about what is in the statement yet?

Dr. LESHER. No, Mr. Chairman, I cannot. It will be public information at 3 p.m. today, and I cannot comment further.

Senator COCHRAN. I thought that. [Laughter.]

Dr. LESHER. I might add there is going to be a press conference at 3:30; then the Secretary is going to discuss it.

Senator COCHRAN. To discuss it?

Dr. LESHER. Yes.

Senator COCHRAN. We look forward to having that information. I suppose all of the agencies here have, to some extent or another, been involved in trying to design the program, and to develop a data base on which to implement the program and administer it. Has there been any need to put additional people on board or has this detracted in any way from the overall functions of the agenices under your jurisdiction, Dr. Lesher?

Dr. LESHER. No; we haven't added any more people. As a matter of fact, over the next couple of years we are going to be declining in staff by close to 48 or 50 persons.

As far as we see it, Mr. Chairman, these are things that are part of our job, in other words, PIK programs and other designing programs. ERS had a lot of work to do with the initial analysis about various options and the way the PIK program could work. The World Board was helpful in that respect also. Then SRS worked with ASCS to get the information with their data processing facilities and get the information back.

Mr. Chairman, that is what we are here for. We are here to serve the Secretary and everyone for the public good in agriculture, and I don't believe it detracted from our job. As a matter of fact, it is our job.

Senator COCHRAN. I notice that one of the main functions of the Statistical Reporting Service, for instance, is to project prices and talk about acreage devoted to planting; is that not right?

Dr. LESHER. The Statistical Reporting Service will not get into forecasting prices. SRS would certainly be involved in planting intentions reports and that sort of thing, but no forecasting.

Senator COCHRAN. No forecasting of price. Some of us were discussing yesterday that in spite of the PIK program and in spite of the poor prospects overall for net farm income, we were probably going to see more acreage in wheat production and maybe soybean production than had earlier been estimated. What is your latest estimate on that, and how often do you come out with these estimates?

WHEAT AND SOYBEAN PRODUCTION

Mr. KIBLER. We put out our first estimate of planting intentions for 1983 about the 20th of February, with a February 1 reference date. That showed a 15-percent reduction in corn, about a 5-percent reduction in soybeans, and a 19-percent reduction in cotton planted acreages. We announced yesterday, Mr. Chairman, that following the release of the PIK data today we will conduct another acreage intentions report about the 25th of April to get an update on what farmers are planning in 1983. We will then follow that with a report about the 30th of June, which reports what farmers have actually planted.

Senator COCHRAN. What was the February report on wheat? I heard the corn, cotton, and soybeans.

Mr. KIBLER. The February report showed about a 5-percent reduction in the winter wheat planting and a 16-percent reduction in the spring wheat planting.

Dr. LESHER. I think it would be fair to say, Mr. Chairman, that the intentions report was in the midst of the PIK program, and so intentions certainly could change between the time that data was collected, which was on the 1st of February, and what you may see this afternoon.

INFORMATION GATHERING

Senator COCHRAN. How do you get that information? Do you do a sampling of farmers, or what?

Mr. KIBLER. I believe, Mr. Chairman, that sample went to about 84,000 farmers in all the States.

Senator COCHRAN. Do you mail them a form?

Mr. KIBLER. We mail them a questionnaire and follow up with the telephone to make sure we have an extremely good coverage. The farmers are reporting to us what they plan to do at that time. We will be going back and surveying about 84,000 farmers for the April report.

Senator COCHRAN. Do you find you get good participation in that?

Mr. KIBLER. Yes, sir, we find the farm people out there are very cooperative to work with. As long as you keep the questionnaire short and focused on the commodities they are interested in, we will get a 90- to 95-percent response rate.

Senator COCHRAN. That is remarkable. I have heard a lot of complaints from some farmers when you do a census or something and they get a lot of paperwork that they have to deal with. But you try not to burden them with your questionnaires.

Mr. KIBLER. We find they are much more anxious to talk about the commodities they produce and yield obtained than the financial arrangements or things of that nature. [Laughter.]

Senator COCHRAN. What they do with the money they make or how they deal with the losses they have incurred.

Mr. KIBLER. That is right.

USERS OF LANDSAT

Senator COCHRAN. On a general topic, I know there have been recent reports of the proposed sale of U.S. weather satellites to private interests. We just included in the jobs bill that we finished up in conference last night a sense of the Congress provision that these satellites should not be sold to the private sector and that the Government should continue to play a major role in weather service activity. I know this probably has an impact on the collection of information in which you are involved. What is your view of that? Are we going to be able to continue getting weather data that is important for you to make your projections?

Dr. LESHER. I will speak briefly, and perhaps Mr. Ahalt wants to comment.

As you know, that decision has been made. We had our input and others had their input too, and that was the decision, the final outcome, and we support that, of course.

We are the users. We are major data users of LANDSAT and other satellite information, and so the way it impacts these agencies, Mr. Chairman, is really the costs involved—what we have to pay and the availability of that information. We believe that you could privatize the satellites, and we could still have the information available to us. People speculate about whether it would cost more or less, or whatever, but we think it would still be available for us to do our job.

Mr. Ahalt?

Mr. AHALT. I think, Mr. Chairman, Bill has outlined the situation correctly. The only point that I would make is that we do have a number of cooperative activities ongoing in the Department of Agriculture with NOAA and, for the most part, these relationships will not be affected by this decision. We are hopeful that we will continue, as Bill points out, to have access to information so that we can make the kinds of impact assessments that these agencies provide for farmers and the general public on what is going on in agriculture.

Senator COCHRAN. Last year, I remember some complaints about the quality of the information obtained from LANDSAT. It may have been from Mr. Kibler or Mr. Lee; I have forgotten who may have commented about the poor quality of the data. Has that improved any or is that still an assessment that would be accurate?

Mr. KIBLER. Mr. Chairman, we had two basic problems in that area. One is that the ground handling system was just not quite adequate to receive all the data as it came back down, and the NASA and NOAA people have made considerable progress in that area, so that the time from actual acquisition until we receive the data has been cut down considerably. We do still encounter some difficulty with cloud cover when the coverage is needed during the peak of the growing season.

STATUS OF AGRISTARS PROGRAM

Senator COCHRAN. I am very interested in the AgRISTARS program. What, in your judgment, has been accomplished with this program over the past year, and what is the status of it now?

Mr. KIBLER. I think with the AgRISTARS activity in the domestic area, Mr. Chairman, we are fairly pleased that we have now developed the technology to use that data in a sound statistical, technical method. Our State statistical offices and the others, as they learn to use the data, are contributing greatly to the efficiency of the program. We are almost now to the threshold where from a cost standpoint and the benefit obtained we can utilize that technology. The most favorable thing coming out as we begin to develop spinoff products like land use material for forestry or soil conservation, or things of that nature, is that we are finding many other users that can plug into that system and get some valuable information.

SELLING USER FEE SYSTEM

Senator COCHRAN. What sort of luck have you had in selling the user fee system for your publications? Do you have a pretty good participation rate compared with the period when these reports were free?

Dr. LESHER. Mr. Chairman, I will let each of the agencies speak to that, but we are all now on a user fee basis and, in general, it has gone remarkably well. We have sold lots of copies of different publications.

Bill, John, why don't you each comment.

Mr. KIBLER. Mr. Chairman, when we went into this user fee system, we felt our mailing list of people who write in and request copies of reports would drop maybe 85 to 90 percent. We have now had nearly a year to work at that, and about 20 percent of the people who asked for reports are actually paying. We are finding, for instance, that firms who originally wanted two dozen copies now find they can get by with half a dozen. We are mailing essentially the same number of free copies to the farmers and agribusiness that provide us the basic data. As we met with our data users around the country, we have had relatively few complaints. A report containing monthly information during the year is selling for $20 or $30, and the operating aspects of that have been working out very well.

Mr. LEE. ERS experience has been about the same. We have had better than anticipated success in selling our publications. We are running 15 to 20 percent of our previous list, whereas people had indicated it would be 7 through 10 percent. Our situation and outlook periodicals are doing very well. Individual research reports don't sell quite as many; but we are doing a better job of letting people know they exist. That is the main problem, letting people know they are available. That is picking up quite a bit. Like the case in SRS, generally, the agribusiness community has supported this activity. Our main problem came with the universities, many of which face budget cuts. We have made provision to assure that all of our research reports are provided to the agricultural economics departments and libraries in the universities, as well as the Congress and the media. We have done some spot checks and believe the information is getting out. In fact, we are doing a better job than before of disseminating our information.

OPERATING EXPENSE

Senator COCHRAN. I notice in the ERS budget you are requesting an increase of a little over $6 million over last year's level. About $1 million of that increase is said to be needed for operating costs. Why is that increase needed? What operating costs are going to be higher this year than last?

Mr. LEE. That is a variety of things, Mr. Chairman. Following the OMB guidelines and the 5-percent across-the-board for nonsalary increases in operating expenses; that is, for example, increased costs of covering ADP——

Senator COCHRAN. What is ADP?

Mr. LEE. Computers, automated data processing, and computer activities. We are moving to substantially increase the automation of the activities we are involved in, including electronic dissemination, and we are using some moneys we have to improve our hardware and software.

MOVING EXPENSE

We also face moving costs. The lease expires next June on the building that we are in, 500 12th Street SW., and we will have to move somewhere. GSA picks up certain costs, but we have to pick up other costs relating to preparing the space. A little over $500,000 in addition to the funds you mentioned are to cover these one-time moving costs.

Senator COCHRAN. Why was that lease not renewed? Have they found a better tenant or somebody they like better?

Mr. LEE. Probably so. The building was purchased by Group Hospitalization, Inc., from the previous private owner, and they needed the space for their own purposes.

Senator COCHRAN. Have you already found another location?

Mr. LEE. No, sir, we have not. GSA is hard at work trying to find a space for us. We have requested that we either be returned to the

South Agriculture Building or be within walking distance of the USDA Administration Building. GSA is having some problems with that, but we are hoping to stay in the immediate area so we can have access to the Congress and others.

Dr. LESHER. Our first priority is to move back in the south building if we can manage it and find the space.

Senator COCHRAN. What about Mississippi, have you thought about moving there? [Laughter.]

We need some more activity.

I can't understand why GSA wouldn't bear all of that cost. Why does that have to be charged to your budget?

Mr. LEE. They do bear a standard set of costs. I don't know the details. Perhaps Steve could address that. But there are certain costs they cover and others they don't.

Senator COCHRAN. $545,000 is a pretty big chunk.

Mr. LEE. It is. It turns out to be quite expensive to move. We are one of the largest Washington-headquartered groups in USDA. We have about 700 people to move, over 100,000 square feet of space, and it turns out to be rather expensive to get into the space. For example, when we move in, we have to have computer rooms prepared for our computer equipment; other offices have to be fixed up. We have just the clean bare space; we have to do everything else to the space to make it useful.

I do have the details, Mr. Chairman, I could submit for the record.

Senator COCHRAN. OK, that would be helpful to us to justify that to the committee.

[The information follows:]

RELOCATION COSTS

Private contractor services	$135,000
USDA moving services	45,000
Minor space alterations	125,000
Drapes and carpet installation	65,000
Miscellaneous services (door signs, etc.)	5,000
Overtime space management services	40,000
Telephone installation	100,000
Special equipment moving	30,000
Total	545,000

SOIL AND WATER RESOURCE ANALYSIS

Senator COCHRAN. We notice also that you have $1.35 million of your increase targeted for soil and water resource analysis. What will that be utilized for?

Mr. LEE. Mr. Chairman, for more than 20 years ERS has been conducting analyses of river basins for the Soil Conservation Service. We provide the economic analysis component of the studies. We have agreed with the Soil Conservation Service—we are in mutual agreement on this—that they will pick up the part of that responsibility that they need to maintain and that ERS will redirect its staff to broader analyses that are more useful to the Congress and the Secretary in trying to develop effective soil and water conservation programs, build an improved knowledge base and data base for that, and to evaluate the likely effectiveness of alternative approaches to deal with soil and water conservation consistent with the priorities that the Secretary has sent to the Congress following the Resource Conservation Act study completed a year or so ago. So the $1.35 million would allow us to directly fund staff that had previously been funded by the Soil Conservation Service and to direct them to a set of studies more useful to the Congress and the Department for dealing with national level priority issues pertaining to soil and water conservation.

Dr. LESHER. Mr. Chairman, could I make a comment on that?

Senator COCHRAN. Surely.

Dr. LESHER. This is one thing that is near and dear to my heart. We as a Federal Government, as you well know as chairman of this subcommittee, spent in total over $800 million in various programs, probably 40 or so programs, that deal with soil and water conservation. It is an extremely important issue to us; it is an extremely important issue to you; it is an extremely important issue to Secretary Block; and an extremely important issue to the President of the United States. With the division of our Natural Resources Division, we had over 50 percent of the staff receiving passthrough moneys from SCS to do river basin planning work, and I strongly feel that we need to do much more in just learning about the effectiveness of all the current programs. Of the $800 million we are spending in these areas, we need to get a better handle, Mr. Chairman, on what is going on out there with regard to soil and water conservation. It is one thing to know that you are losing soil or that water pollution is at a certain rate, but it is another to know what the economic forces are or what the incentives will be to get farmers and others to practice better soil and water conservation. And with this block of money, we are going to embark on what I would call a rather thorough analysis of this whole area to provide input to you, to the Secretary, and to the public on this most crucial issue.

This is part of our effort, Mr. Chairman, to get—and the other agencies are doing the same thing—more involved in what the issues of the times are and provide analysis on those issues.

LAND VALUES

Senator COCHRAN. I notice that there is a plan to use $750,000 for a farmland values survey by ERS. What is that program and what is the benefit of it?

Mr. LEE. Mr. Chairman, for many years ERS has published estimates of land values by States and changes in land values, land rental rates, and a host of related information that have become heavily, and very widely, used throughout the country by the public and in private contracts. These data are accepted by IRS in settlement of farm estates. It is almost inconceivable how these data have become built and used throughout the country. What has happened, though, is that there never was a survey base for collecting these data. We had piggybacked on a number of other activities in SRS and other places to collect these data.

As these other surveys have given way, for valid reasons, to other activities, we have lost the base on which we collect these data. So, our sampling base and quality of data have deteriorated. We are going to only once-a-year reporting instead of twice a year, and even there we have data in several States that aren't good enough to report statewide. We have to combine those data to get regional data.

This is a time people are more worried than before about what has happened to the land value base, which is the large proportion of the total asset structure in the agricultural economy. So it is very difficult not to have a set of sound data that describe this asset base of the agricultural sector.

What we are proposing is enough funds to develop a sound national sample—a national survey to collect and analyze these data so we can put out improved quality of information, broken down at the State level. Hopefully, in a number of States we can separate irrigated and nonirrigated, ranchland and cropland, and be able to better track what is happening to the market value of those properties.

FARM SECTOR ECONOMY

Senator COCHRAN. How does that benefit our effort here in Washington to make a constructive contribution toward the overall economy or the farm sector economy? Why do we need that except as a matter of intellectual curiosity?

Mr. LEE. In times like these, for example, this year, it has been very important to sort out exactly what is going on and how the economic conditions are varying from one part of the country to another. One has to look at more than what is happening to national commodity prices. You have to look at what is happening to the asset-debt structure on farms, not only at the national level. These vary greatly. As you know, this has been a particularly tough year or two for the State of Mississippi. Things are bad in other States. But in some States they are different. It is very important to sort out these differences and to have a balanced perspective on economic conditions in the farm sector to, among other things, not develop policies that are not needed or undertake programs that may not be needed, and to make sure we undertake programs that are needed. It is important to have correct information and not do this on hearsay.

Dr. LESHER. I think, as you know in your State, as well as some other States, credit has become an issue, an important issue, and I think you will find the Farmers Home Administration, the farm credit system, and others, use this information in their operations to determine the kind of credit they make available. It is important in a broader sense, I think. In other words, the press picks up pretty quickly on land values when they go up or down; and I think you are alluding to that; so what? I think the broader sector of agriculture uses this probably more importantly for determining credit needs, that sort of thing, than perhaps first meets the eye.

WORLD AGRICULTURAL SITUATION

Senator COCHRAN. In looking at the world economic situation as it affects farming, are you finding, Mr. Donald, that more agricultural activity is going on in the world today than, say, 2 years ago or 3 years ago? Are we seeing increases in productivity levels around the world? What is the general situation right now as you see it? What is the trend?

Mr. DONALD. Mr. Chairman, on the supply and production side, we have had a mixed world situation. The Australian wheat crop, for example, is well down this year because of the drought. For the past 2 years the Soviet crop also has continued at low levels. But in the past 2 years, we have had good crops, and most of the increase in world output and production has been in the United States.

Where we have been hurting on a world basis is on the demand side. Economic activity is lagging. We are in what could be described as a world recession. There now are some indications in this country that economic activity is picking up, and we expect some expansion in other countries too, particularly in the importing countries. Increases in economic activity will help expand the demand for agricultural products. We are not looking for a huge expansion over the next 12 months or so. But as we move later into 1983 and 1984, Mr. Chairman, we expect some increase in demand after running well below the trend in terms of increases in consumption of wheat and feed grains.

Senator COCHRAN. How many commodities do you now review or monitor on a worldwide basis? Are you limited in what you try to make reports about?

Mr. DONALD. We review and monitor very carefully the major commodities which include wheat, corn, and other major feed grains, oilseeds—soybeans in particular—livestock and dairy, and cotton. Each month under secure lockup conditions we review and update world production and demand prospects for these major commodities. The first day we review production prospects; the next day we take those production numbers and review total supply and demand implications and ending stocks and prices. Each month we update those numbers, including the price work, as you were mentioning before. We are basically looking 1 year ahead.

LOCKUP FACILITY

Senator COCHRAN. Has the lockup facility program been a success? Have you had any leaks?

Mr. DONALD. Dr. Lesher continues to stress that we take all security measures. It has worked very well, Mr. Chairman.

Senator COCHRAN. It has been in operation now for about 2 years; is that correct?

Mr. DONALD. It has been a little over a year now. We have been in colocated facilities with the SRS Crop Reporting Board, so we have the chance to interact with SRS on the domestic estimates. That has worked very well, Mr. Chairman.

FUNDS FOR LANDSAT

Senator COCHRAN. You have some funds in your budget for your share of LANDSAT information, too; do you not?

Mr. DONALD. Yes, Mr. Chairman. We are not a direct user of that information. We are like a storekeeper. The concept here is if the small data users have a need for that information, we can provide the funds for their purpose. We are not a direct user of the data, but help other USDA small agency users, such as the Agricultural Research Service, Forest Service, or Soil Conservation Service, by making funds available to them, if they have needs to purchase the data.

Senator COCHRAN. Well, you have $100,000 in your budget for that?

Mr. DONALD. Yes, Mr. Chairman, we are requesting an increase of $50,000, which would total $100,000.

Senator COCHRAN. We have some difficulty in dealing with that LANDSAT request in trying to allocate it among the various agencies and offices that use those resources. Who actually decides how much money is going to be requested for that, and how it is to be allocated? Does Mr. Dewhurst do that or somebody with the budget book?

Mr. DONALD. The information purchased by the Department would reflect its use of the information, in other words, to the extent of a user fee concept. I am not sure what level the actual decisions are made on how much money is to be requested or allocated, but it is to basically cover the cost of the use of the data. The largest user is the Foreign Agricultural Service, which uses the data for foreign production and foreign crop assessments. SRS and the World Board have small budgets for users of that information, whereas the Foreign Agricultural Service budget includes the primary source of funding for LANDSAT data acquisition.

Mr. KIBLER. Mr. Chairman, we have actually taken a look at the number of scenes required by each of the agencies and what the estimated cost under the new system will be, and we have allocated that cost among Department agencies. You know we were instructed in our 1983 budget to negotiate with NOAA on some reduction of that cost. Since the Foreign Agricultural Service was the lead USDA agency, we and the other agencies in the Department allowed them to represent us in that negotiation with NOAA. They have reached some conclusions on how that will be handled in 1983, but they have not finished their negotiations for 1984. It is too early to tell how the new procedure that you commented on earlier, where the system will perhaps be put in the private sector, will actually affect those costs.

LIAISON WITH COMMODITY FUTURES TRADING COMMISSION

Senator COCHRAN. I know that you have some special relationship with the Commodity Futures Trading Commission. What is that relationship, and could you tell us a little about your contracts with them?

Mr. DONALD. Mr. Chairman, the World Agricultural Outlook Board is the Department's liaison group with the Commodity Futures Trading Commission. We attend their price monitoring meetings on occasion. If they want a study on the feasibility of a potato futures contract, we will contact the Economic Research Service or the Agricultural Marketing Service to do a special study or analysis for CFTC. Regular contact is maintained as far as monitoring agricultural markets and special studies and analysis where CFTC may need assistance from USDA in deciding whether to have a new futures contract.

SUBMITTED QUESTIONS

Senator COCHRAN. Well, these are all of the questions that I am going to ask this morning. If others occur to us later, we may get back in touch with you and ask you to respond in writing for the record.

I want to thank you all for being here. We very much appreciate your cooperation with the committee.

[The following questions were not asked at the hearing but were submitted for response for the record:]

STATISTICAL REPORTING SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CROP AND LIVESTOCK ESTIMATING PROGRAMS

Question: What has been the reaction to and impact of your decision last year to cut back, or in some cases eliminate, the statistical information generally made available to various industries?

Answer: Although there were many letters, telephone calls, and personal visits to express criticism of the curtailment or elimination of reports, most data users accepted the changes as necessary. Of course, most felt that the curtailment should have been made in places outside their area of interest, but in general, we were gratified at the acceptance of the changes put in place. Some user groups successfully appealed to Congress for funds necessary for restoration of their reports in 1983; a few provided the financial resources to continue all or part of the affected reports.

Question: How much of the funding was provided by industry for this statistical information?

Answer: In addition to the Barley Variety Survey which has been funded by the American Malting Barley Association for many years, some other private groups funded other surveys. The National Peanut Council provided $12,000 for continuation of the monthly Peanut Stocks and Processing report. The American Dry Milk and Whey Products Institute provided $12,500 for continuation of an interim monthly Dry Milk and Whey Products report for nine States. The National Turkey Federation supplied $6,800 for some special reports on turkeys. The American Butter Institute and The National Cheese Institute provided $26,000 for estimation of weekly butter and American cheese production in five States. Funds were redirected from within the Department to restore the monthly report of catfish processed and to support quarterly versions of Sugar Market Statistics.

Question: How much savings was actually realized in Fiscal Year 1982 and projected for Fiscal Year 1983?

Answer: Savings realized from the SRS program adjustments announced in March 1982 totaled $2.1 million. During all of FY 1983, $2.5 million will be saved after reinstatement of the monthly slaughter, cold storage, milk production, dairy products, poultry, catfish, and mink reports directed by Congress.

Question: Please provide for the record an up-to-date listing of the reports that are now being provided and paid for by SRS; those provided, but paid for by industry, and those now eliminated or no longer available. Also, provide the costs and the savings of each.

Answer: The accompanying publication, Crop Reporting Board Catalog shows the 1983 releases issued by SRS under the program currently in effect. At this time, the only report being financed by a private group is the Barley Variety Survey for which the American Malting Barley Association provides $13,000. The pages entitled Indexes of Estimates identify those items which were eliminated from the program as it existed in March 1982. Savings effected by the 1982 program modifications, less those reports restored by Congress in 1983, are as follows:

Report Group	Savings March-Sept. 1982	Savings FY 1983
Hogs and Cattle	$ 615,000	$ 855,000
Prices and Production Expenditures	---	---
Grains and Oilseeds	95,000	125,000
Cotton, Tobacco, Fruit, Floriculture, Vegetables and Special Crops	736,000	1,026,000
Milk, Eggs, Sheep, Cold Storage, Mink, Aquaculture, and Honey	655,000	538,000
	$2,101,000	$2,544,000

Costs for continuing the fiscal 1983 program of crop and livestock estimates are as follows:

Report Group	FY 1983 Budget
Hogs and Cattle	$ 5,500,000
Prices and Production Expenditures	10,400,000
Grains and Oilseeds	20,159,000
Cotton, Tobacco, Fruit, Vegetables, and Special Crops	4,400,000
Milk, Eggs, Sheep, Cold Storage, Mink, Aquaculture, and Honey	5,300,000
	$ 45,759,000

(Clerk's note: The publication, Crop Reporting Board, referred to above has been retained in the files of the Subcommittee.)

USER FEES

Question: What has been the outcome (success or failure) of your user fee system on publications? Have you had a chance to review this system?

Answer: We feel this system has been a success. The problems have been few and the system has been accepted quite well by the data user community. The most significant aspect is the savings--we roughly calculate $1.2 million in reduced or avoided expenditures to the Federal Government.

Question: Will you continue to have the Superintendent of Documents collect subscription fees? Is this the most cost-effective means?

Answer: Yes, as long as we are issuing hard copy reports. The Superintendent of Documents is in that business and we expect to use their services. Fees to users would be virtually the same using Superintendent of Documents or doing the work in SRS. We are, by using Superintendent of Documents, able to devote our personnel resources to statistics activities.

Question: Have you had complaints from subscribers about the costs or on the servicing of requests?

Answer: Subscription prices have not been much of an issue. Our main area of concern is the servicing of subscribers to the reports distributed by the Superintendent of Documents. I'm sure the servicing of our data users is no different from other customers of Superintendent of Documents. However, the 6 weeks time lag in initiating subscriptions and the 1 to 1-1/2 weeks for delivery through the postal system causes some complaints, especially since the users are now paying for the reports. We are working closely with the Superintendent of Documents on scheduling so all reports can be printed and distributed as quickly as possible.

QUALITY OF DATA

Question: Last year, we discussed the quality and accuracy of the data provided to and by USDA. Have there been any significant changes in this regard?

Answer: We have not been able to identify any deterioration in the quality of data reported to us by respondents. Neither has there been any significant change in the willingness to report. In our program modifications last spring, the underlying philosophy was to reduce program rather than sacrifice quality. Nearly all of our data users support this philosophy. We have maintained standards for all reports remaining in the program. In fact, our record of forecasts in 1982 was somewhat better than in other recent years.

Question: Has there been any appreciable improvement in the level of responses to SRS surveys?

Answer: We have not seen any appreciable improvement in response rates for our surveys nor has there been any decline.

LONG RANGE PLAN

Question: You indicated in your statement that you have established an internal group to develop a long-range plan for SRS. Please advise how the group was selected.

Answer: The group assigned to develop the SRS Long-Range Plan was selected by me after receiving input from my top management staff. This group is made up of high potential middle to upper level mid-career employees.

Question: When will the report be finished?

Answer: The report was completed and presented to me and the SRS Program Planning Committee on March 1, 1983.

Question: Will Congress have any input? To what extent?

Answer: The Planning Group met with a cross-section of agricultural interests to obtain input into the developing plan. A member of the Senate staff was one of the persons contacted in this activity. The Long-Range Plan will be submitted to the House and Senate Subcommittee's on Agriculture, Rural Development, and Related Agencies for review and comment.

CROP DATA IMPROVEMENT

Question: You have requested an increase of $850,000 for Crop Data Improvement because of greater demand. What is causing this greater demand?

Answer: As our data users become more sophisticated in analysis and interpretation and markets have become world oriented, the demands for accuracy and timeliness of statistics increases. Domestic markets are increasingly sensitive to information which must be reliable to reduce the effects of misleading signals.

Question: What new objective yield surveys will be initiated and conducted by SRS?

Answer: The background research work has been done and with this budget request, operational objective yield procedures would be put in place for grain sorghum, rice, and sunflowers.

Question: How many crops are already included in your ongoing program? Please list for the record.

Answer: Presently, there are six commodities for which objective yield surveys are being made using Federal funds. They are: wheat, corn, soybeans, cotton, tart cherries, and potatoes. In addition, objective yield surveys for 10 fruit and nut crops are supported by State or industry funds through our Federal-State cooperative program. They are: almonds, filberts, grapefruit, lemons, oranges, papayas, tangelos, tangerines, temples, and walnuts.

CROP REPORTING BOARD - ELECTRONIC REPORT SYSTEM

Question: Why are you requesting an increase of $425,000 for your Crop Reporting Board Electronic Report System?

Answer: Primarily, our intent is to distribute our information more quickly. Much of the Crop Reporting Board information is perishable. Data users throughout the agricultural industry and government need timely information in order to make more informed decisions. The postal system does not deliver products such as ours as quickly as needed. A second significant benefit will be to serve data users better by providing our statistical data in computer compatible form. Many users now have computers and that number is rapidly growing. These people desire to have the information in a form that is able to be put into their systems directly rather than having to manually enter the data into their computers from a hard copy publication. Both of these main areas of interest would be served by using the technology that is available to us.

Question: Why hasn't SRS data been provided or made available to all data users before?

Answer: It has been, and will continue to be, available to all data users through hard copy reports delivered through the mail. Timeliness and form are the problems with this technique. As noted in my earlier response, an electronic system will transmit the information virtually instantaneously and in a form that users can use more efficiently.

Question: Will user fees be collected for this data?

Answer: We would expect data users to pay for all costs associated with accessing the information, but not the creation or maintenance of the system. These user fees would likely include the communication (or telephone) expenses. In addition, it is also likely that these fees would be paid to a private vendor rather than to our Agency. We do not expect to have users communicating directly to government computer facilities.

LANDSAT

Question: There have been recent reports of the proposed sale of U.S. weather satellites to private interests. In view of your use of LANDSAT data, how do you feel about this?

Answer: Our major concerns regarding LANDSAT data are cost, quality, availability, frequency, and timeliness of data products. Once our needs and concerns for these items are satisfied, the identity of the data provider--government or private--is immaterial to us.

Question: If the sale does occur, what effect will it have on your use and costs?

Answer: Presently, our outlays for LANDSAT data products make up approximately 10 percent of the total cost of our LANDSAT applications work. Hence, if LANDSAT prices double, our total LANDSAT project costs would increase by 10 percent. If LANDSAT prices triple, our total costs would increase by 20 percent.

Question: Last year, you indicated that LANDSAT data is of poor quality. Has it improved any this year?

Answer: In the past crop year we used data from the LANDSAT III satellite. LANDSAT III had the western 30 percent of each image missing and some other processing problems. Although software corrections helped some, the quality was generally poor. LANDSAT IV was launched in late July but was not fully operational until after the 1982 crop season. We received coverage for one area in Iowa and its quality was quite good. We expect improved quality this year since LANDSAT IV will be the primary source of data.

Question: Do you still feel we should continue putting resources into the LANDSAT program?

Answer: During the years of two satellite coverage (1975-1979), we demonstrated cost-effective improvements in the precision of U.S. crop area estimates. One satellite coverage reduces the cost effectiveness to a more borderline case. However, additional benefits such as reduced respondent burden, objectivity of methodology, and improved data collection procedures make LANDSAT use attractive. We feel that resources put in the U.S. Government LANDSAT program are well spent. The increased information to SRS has been demonstrated and is quite valuable. In addition to improved crop area estimates, SRS has used LANDSAT imagery in a cost-effective fashion to build more current area sampling frames. More up-to-date area sampling frames lead to more precise agricultural statistics.

OTHER SERVICES

Question: You are requesting a substantial increase in your "other services account" for fiscal year 1984. Would you please advise how this increase will be used.

Answer: The following table provides a detailed listing of the increases from FY 1983 to FY 1984 in the "other services account."

Other Services 1983-84
(In Thousands of Dollars)

	1983	1984
Agreement with the National Association of State Departments of Agriculture (NASDA) for data collection work (appropriated portion only)	8,230	8,970

Other Services 1983-84--Continued

	1983	1984
Training	112	112
Departmental Assessments	567	601
ADP	2,795	3,816
Research (excluding ADP)		
Agreements (including those with universities and other agencies	1,540	2,103
Contracts	16	16
Other cooperative agreements (excluding NASDA and ADP)	878	1,088
Maintenance agreements for machine repair	508	691
Miscellaneous	247	321
TOTAL	14,893	17,718

AgRISTARS

Question: I'm very interested in the AgRISTARS program. Could you elaborate for the Committee what you have accomplished with the program over the past year and what you are currently doing?

Answer: Activities of the SRS under AgRISTARS have concentrated on using LANDSAT data for improved crop acreage estimates in the United States. During 1982 we processed all of the available LANDSAT data for five major crop States: Colorado, Kansas, and Oklahoma for winter wheat, and Illinois and Iowa for corn and soybeans. Estimates for these crops were provided to the Crop Reporting Board for its use in setting final planted and harvested acreage estimates for these crops in 1982. Some work was also completed in Missouri, where we planned to do a major land cover study as well as provide crop acreage estimates for the major crops. Because of clouds and other data problems this work was not as successful as we would have liked. A land cover project was completed for the entire State of Kansas in 1982, using 1981 LANDSAT data. Results were very good and are currently being used and reviewed by a large number of other Federal and State agencies for their programs. We anticipate that future use of this information, which is essentially a spin-off of our use of LANDSAT will be used by Department agencies such as the Soil Conservation Service and the Forest Service, to reduce or improve the amount of data collected for their programs. Also we see a great deal of interest in this type of information by State and local agencies and we are working to cooperatively share it as widely as possible. As you know, AgRISTARS is a very large research program involving other Department agencies as well as NASA and NOAA, which require a great deal of coordination and cooperation. SRS has had the lead responsibility for much of the coordination associated with this program from planning to its inception and implementation. As a cooperative program it has not been problem free but we feel that it has been highly successful in meeting many of its stated goals and objectives. Therefore the Department supports its continuation even though NASA support has essentially been withdrawn after Fiscal Year 1983. Because of the scope of the program, it is not possible to go into great detail on accomplishments. These are detailed in a large number of research reports with highlights printed in an annual report, which also includes a bibliography of AgRISTARS research reports and papers.

Question: Are you satisfied with the cooperation you have had with NASA and NOAA?

Answer: Our cooperation with NASA has been quite beneficial. Under the AgRISTARS program, NASA has assisted us by performing related research and by providing data processing software and services.

Our cooperation with NOAA under the AgRISTARS research program has been quite good. With NOAA only taking over the operation of the LANDSAT system in January 1983, it's still too early to tell how that activity will go. We have been pleased with their service so far, however we have requested very little data.

We do have concerns about the delivery of LANDSAT data to SRS. Over the years our experience has been that neither NASA nor NOAA has provided data according to the published time specifications.

Question: To what extent, if any, will the space shuttle be involved in any of your projects?

Answer: We will be investigating the use of photographic products from the space shuttle's Large Format Camera. Our interest in the resulting imagery is to use it to build area sampling frames. Also, the space shuttle program may develop methods of in-space repair of satellites and sensors, launch new satellites such as LANDSAT and Data Acquisition satellites, and as such, should reduce costs associated with LANDSAT data acquistion.

Question: It is my understanding that some AgRISTARS functions were transferred from SRS to the Agricultural Research Service (ARS) in Fiscal Year 1982 and anticipated in Fiscal Year 1983. Please explain what these functions are.

Answer: At the time AgRISTARS was planned several Department agencies including SRS and ARS were participating in a joint program with NASA and NOAA called LACIE. Department budget resources for this program were included in the Foreign Agricultural Service (FAS) budget. When AgRISTARS was started the FAS LACIE budget was split into two parts; a budget to support FAS operational remote sensing activities and a research budget to support other Department agencies participating in AgRISTARS. The research budget was transferred to SRS with the understanding that we would reimburse other Department agencies for their staff resources reassigned from LACIE to AgRISTARS. In 1982 ARS had four scientists working on AgRISTARS for which SRS was responsible for $190,000 of their budget support. Research tasks assigned to this small group are primarily to address requirements for using remote sensing to provide early warning and crop condition assessment for foreign countries.

Question: Why they were transferred.

Answer: Since ARS planned to keep these researchers assigned to AgRISTARS for the planned life of the program in 1982 we transferred the money from the SRS base to the ARS base. This was done to avoid the administrative costs of making this transfer annually, as we had done in 1980 and 1981. No SRS functions as such were actually transferred, since when AgRISTARS was planned the functions performed by the four ARS scientists were actually assigned to ARS.

Question: Why isn't the budget request of $190,000 not included in the budget for ARS?

Answer: We understand that this activity is now included in the ARS budget.

Question: Were funds transferred to ARS prior to Fiscal Year 1982? If not, why?

Answer: Funds for this work prior to FY 1982 were transferred to ARS through a reimbursable agreement.

Question: Please provide the same information on the transfer of $46,000 to the Office of Information Resources Management.

Answer: This amount represents the Agency's share of the Office of Information Resource Management (OIRM) headquarter's cost for FY 1983. This activity, involving administration of the data services and records management policies and functions of the Department, was previously funded under the Working Capital Fund. The interagency Task Force for reviewing Centrally Funded Activities of USDA recommended financing this activity by appropriations starting in FY 1984. No additional money is being requested, therefore each agency's budget is being offset by the amount it previously paid to support the OIRM headquarter's activity.

PIK

Question: Do you or will you play any role in the PIK program?

Answer: Yes, the SRS did provide support in the handling of the PIK data because of our ability to rapidly process and summarize data in a secure manner. The county ASCS offices provided the PIK data to the SRS State Statistical Offices that in turn entered it into our secure ADP network for the transmission to and summarization in Washington, D.C.

SRS maintained control of the summarized data in Washington, D.C. until the designated release time to provide appropriate security of this highly sensitive and speculative data.

GAO DRAFT REPORT

Question: Your notes indicate that the General Accounting Office (GAO) has investigated the procedures and methods used by SRS in developing wheat prices received by farmers and use of county estimates for acreage and production in wheat deferring payments. Please provide for the record the Agency's response to the GAO findings and recommendations.

Answer: The SRS response to the draft GAO report is provided for the record.

Letter From John R. Block

DEC 18 1982

Mr. J. Dexter Peach
Director
Resources, Community and Economic
Development Division
General Accounting Office
441 G Street, N.W.
Washington, D.C. 20548

Dear Mr. Peach:

Thank you for the opportunity to respond to your report on wheat deficiency payments. The report is generally informative and points out several areas in which procedures need further refinement.

GAO indicates "the accuracy of the average market price is highly questionable." It is our position that GAO has unrealistic expectations from a sample survey. The sample survey is designed to yield price estimates with a coefficient of variation of 1 percent or less at the U.S. level. This means that a survey average price could be expected to be within 3-4 cents of the true value about 66 percent of the time and within 6-8 cents 95 percent of the time. This is the error that could be expected from sampling alone and does not take into account non-sampling errors. Issues raised in your report regarding the accuracy of the national average price are in the area of non-sampling errors. The magnitude of non-sampling errors identified by GAO is much less than expected sampling errors. SRS goals are to minimize both sampling and non-sampling errors. However, if accuracy of 1 cent or less is desired, a complete enumeration of all buyers will be required with attendant substantially higher dollar cost and respondent burden.

Our response to the specified recommendations made in your report are as follows:

SRS Accepts and Uses Average Prices--SRS agrees that efforts should be increased to reduce the number of average prices reported by respondents in lieu of quantities and associated dollars. At the same time, it must be remembered that data for the previous month are collected between the 13th and 17th of the following month. Consequently, in some cases, records simply may not be available. It is our belief that a knowledgeable person can closely estimate an average price if the price to be reported is carefully defined and that the error is less than that which would occur if the firm were omitted from the sample. Also for a large sample, errors in estimating average prices tend to be offsetting. The 1 cent difference cited by GAO is a fraction of the expected sample error.

Grain Buyers Provide Inaccurate Information--Response to the grain price questionnaire is voluntary and SRS does not have audit authority. Methods of marketing vary by area, firms do not have standardized bookkeeping systems and records may be part of a centralized recordkeeping system. For these reasons, questionnaire design and enumerator training is largely delegated to each State Statistical Office. The GAO findings do indicate a need for greater emphasis on standardization of questionnaires and training of enumerators.

SRS Lacks a Quality Review System--SRS does not have a quality measurement system in which there is a formal independent re-enumeration and summarization to obtain quantitative measurement of the sources of error. A program measuring the extent of inaccuracies is desirable, but Agency funding is such that this has a low priority. Implementation of such a program within the current budget would require elimination of part of the on-going program. Furthermore, the expected improvement in accuracy resulting from a quality measurement program is small. Increased sample size would increase accuracy significantly, and this would be a more prudent use of any additional funds.

SRS does have a number of procedures to check quality of survey data. All data are run through computerized edit systems which identify errors or inconsistencies which are reviewed and resolved before data are summarized. Often, a firm is called to verify purchases that appear out of line with other firms or their past price level. Also, reported prices are compared with prices from other independent sources such as Grain Market News or local elevator quotes. Average prices are published by State as well as at the national level and are used by many in the grain trade. These data users are quick to question estimates they believe may not be correct.

Survey Non-response Rates Are High--GAO cites the Federal Statistical Policy and Standards directives and suggests that more intensive follow-ups with phone calls or personal visits be used to improve the quality of data for the prices received survey. SRS works within an unusually tight time frame with only 3 or 4 days available for follow-up. State Statistical Offices are expected to contact all non-respondents on each survey by phone or personal visit, but reduced resources have curtailed this follow-through.

Implementation of Recommendations to the Secretary of Agriculture:

1. A system of quality control will require additional funding not presently available.
2. SRS will intensify the training of enumerators to improve performance and better explain data needs to respondents.
3. Survey questionnaire format and reporting instructions will be reviewed and standardized.
4. A program to obtain missing reports for computation of the five-month average price will be implemented.

Using SRS Yields Per Harvested Acre Does Not Result in Overstated Farm Yields--This method is consistent with the way wheat yields have been determined in the past and the way cotton and rice yields are determined now. Since 1965, the statutes have defined the "projected county yield" and "projected farm yield" for wheat in terms of yields per harvested acre. These yields were used through 1977. The Food and Agriculture Act of 1977 provided that farm yields shall be the yield established for the farm for the previous year, adjusted to provide fair and equitable yield. This strongly implies a continuation of yields based on harvested acres. This is consistent with the statutory language on cotton and rice yields, which are determined based on the actual yields per harvested acre on the farm.

As noted in the report, there are two main reasons for the difference between planted and harvested acres of wheat. A large number of wheat acres are ultimately grazed out instead of harvested for grain. These acres have the same productive capability as other acres in the general area. The decision to graze or to harvest for grain a given acreage of wheat is normally based more on current market conditions than on the potential yield for the crop.

Aside from grazing, natural disaster is the other major reason that wheat acreage is not harvested. In most cases, however, it is more economical for a producer to carry wheat on to harvest than to destroy the crop. Therefore, the greatest proportion of the wheat acreage that is disaster-affected is included in the SRS harvested acreage figures.

Our farm yields are intended to reflect the productive capability of the farm assuming normal weather. For this reason, State check yields are computed using up to 10 years of data and, under one alternative, adjusted for abnormally low and high yields. Since we take these steps to eliminate the effects of adverse weather, it would be self-defeating to use yields per planted acre in establishing yields.

Finally, rather than just examining the use of harvested versus planted acres yield data, GAO should have compared the program yield with the harvested and planted yields. For 1981, the national program yield was 34.6 bushels per acre, which was .1 bushel above the national harvested yield and 3.2 bushels above the national planted yield. However, we changed the method used to compute the program yield for the 1982 wheat crop and the program yield was lowered to a national average of 32.5 bushels per acres, 3.1 bushels below the national harvested yield and only .3 bushel above the national planted yield.

Assignment of Individual Farm Yields is Often Inaccurate--The proper distribution of yields among farms in a county has been and remains a subject of concern. The data presented in the report on the Kansas counties seem to show that the ASCS yield spread is too narrow. However, the comparison between ASCS yields and a 1-year frequency distribution is misleading because ASCS yields reflect 5 or 10 years of actual yields which show a much smaller spread, since the extreme variations cancel out.

As long as we do not have actual yield data on individual farms in the counties, we must rely on the judgement of the county ASC committees to determine the relationship among farms. A frequency distribution that reflects 5 years of yields could be used as a yardstick by which to measure a committee's efforts.

Over the years the number of farms growing wheat in the area from Texas to North Dakota has decreased. We would expect that the decrease would have been in farms with the lowest yields as the poorest producers are going out of farming. The trend is towards more uniformity in farm management and yields will more and more reflect differences only in land capability.

At the national level, we do not have the knowledge of land capability in a given county nor do we have solid data on distribution of actual yields over several years. To the extent that anyone in ASCS knows this information, the county ASC committees know it best. Without this information, it is difficult for the national office to second-guess the county committee.

We should note a step that has been taken to correct problems which is not reflected in the report. First in 1982 and more strongly in 1983, we are requiring that the proven yield for a farm for one year be used as the preliminary yield for that farm for the next year. This requirement means that as producers prove their yields, the county ASC committee will be forced to reduce the yields established for the farms that do not prove their yields. Thus, over the next few years, the yield distribution in a given county should become considerably wider.

In our opinion, the amount of the differences in payment shown by your review does not justify the extra administrative effort needed to compute and maintain proven yields using the weighted average formula.

During the period reviewed, we did have provisions that required the county ASC committee to review cases where the current year acreage was less than 50 percent of the previous year's acreage and the actual yield exceeded 120 percent of the previous year's yield. This requirement was intended to prevent manipulation of the simple average procedure in order to achieve a higher yield. In an effort to simplify procedures, these provisions were removed for 1982. They will be reinstated for 1983.

Sincerely,

John R Block

Secretary

ECONOMIC RESEARCH SERVICE

QUESTIONS SUBMITTED BY SENATOR COCHRAN

BUDGET REQUEST

Question: Why is there such a large increase in your line item for "Other Services" (#25) from $7.5 million to over $12 million?

Answer: The increase relates to proposed program changes from FY 1983 to FY 1984 as noted in the following table.

Other Services Account
FY 1983 - 1984

Item of Change	Total Change	Other Services Amount
Base	---	$7,484,000
Soil and Water Resource Analysis	$1,350,000	234,000
Natural Resource Data Collection	1,000,000	1,000,000
Farmland Values Survey	750,000	750,000
Farm Production Expenditures and Cost of Production Survey	500,000	500,000
Relocation Costs	545,000	545,000
All Other	1,949,000	1,525,000
Total	6,094,000	12,038,000

With the exception of funds for the relocation costs, these other services funds will be used for agreements with universities or private firms and for surveys with other federal agencies. Funding for relocation costs will be used to cover moving costs such as contract moves, space alterations and telephone services.

Question: What is entailed in natural resource data collection activities, and why is an additional $1 million requested?

Answer: Our plan is to initiate data collection efforts to obtain economic data from farmers and landowners about soil conservation practices and investments, land use and cropland development investments, agricultural water use and water conservation measures, and landownership patterns and their effect on land and water management decisions. We propose to conduct surveys on soil conservation investments in 1984 and 1985, land use and cropland development in 1986, irrigation and water conservation in 1987, and landownership in 1988. Current funds are not adequate for comprehensive, economic surveys with national coverage. Such surveys are needed to provide economic information that will complement physical data about land and water conditions collected periodically by the Soil Conservation Service in their natural resource inventories. These data will enable us to conduct analyses of national land and water management policy options.

CONDITION OF FARM ECONOMY

Question: This is a difficult time for the farm economy, and many farmers often wonder what benefit some research being done in Washington offers them. What is your response to that query?

Answer: My response is that they do benefit from our research. Direct benefits include, for example, analyses of the situation in commodity markets, and forecasts of supply, demand, trade, and prices that can be used in making short-term decisions on what to produce and long-term decisions on major investments. The indirect benefits are much more significant, however. Congress and policymakers at all levels of Government rely on our research, analysis, and data in their decisions on farm programs, and the quality of those decisions has an important effect on the well-being of farmers, agribusinesses, and consumers.

Question: What is ERS doing that translates to assistance for the farmer, or the elucidation of data that can be used practically in the farm sector?

Answer: Again, public programs to assist farmers cannot be conceived, designed, or implemented without economic research, analysis, and data from ERS. Good decisions flow from an awareness of the economic consequences of the impacts of alternative programs. To improve the more immediate usefulness of our data and analysis to farmers, ERS is redirecting resources internally to improve the quality and timeliness of its commodity and trade situation and outlook intelligence. The published reports are being substantially upgraded, and the information in those reports is now available nationally via electronic dissemination. A growing number of farmers, farm-related businesses, and extension workers now have direct access to our data and analyses from electronic terminals.

COMMERCIAL AGRICULTURE

Question: There is a greater need today than ever before to improve ways to market U.S. agricultural products, both here and abroad. What research activities does ERS conduct in the pursuit of improved marketing knowledge?

Answer: ERS is conducting research on several fronts in the pursuit of improved marketing knowledge. Activities in the area of supply, demand, and price analysis identify and analyze the effects of economic and other forces on variables influencing the markets for crops, livestock, livestock products, fruits, and vegetables. Results of continuous activities in this area contribute to appraisals of the current situation and forecasts for short and intermediate term market conditions. Information is disseminated to the public through press releases, regularly scheduled outlook and situation reports, statistical bulletins and other research reports.

Some examples of marketing research activities in the crops area include: analyses of marketing strategies employed by farmers and marketing firms relative to their effects on price variability, price discovery, and efficiency of markets, and to their relationship to Government programs; analyses of market structure and performance involving grain marketing patterns, transportation requirements, the market systems for grains and soybeans, cotton and rice distribution channels, and trade deficit problems related to imported textiles; assessment of the potential to export U.S. grains under the current transportation, storage, and port handling facility capacity; measurement of the efficiency of the grain handling and storage sector; and monitoring of farm-to-retail price spreads.

Some examples in the animal products area are: assessments of the performance of market institutions in the dairy, red meat, and poultry subsectors in terms of costs and returns and degree of competitiveness; and development of basic data and research tools to indicate the cost structure of marketing firms, the industry structure (number, size and location), and pricing mechanisms employed.

Some examples in the fruits and vegetables area are: analyses of production and marketing changes in the potato industry involving the shifts in consumption from fresh to processing potatoes and impacts on marketing patterns; analyses of factors affecting production and marketing of fresh and processed fruits and vegetables such as Federal and State regulations, marketing orders and risks faced by fruit and vegetable producers; analyses of production patterns, consumption trends, processing structure and market outlets for vegetables in the North Central region; and an assessment of Florida-Mexico competition in supplying U.S. markets with winter fresh vegetables.

Other examples are: evaluation of the effectiveness of market orders to increase prices above levels that would have prevailed in their absence; assessment of the role of cooperatives in the present day market economy and overall anti-trust environment; and an evaluation of the predictive accuracy of futures prices.

To improve export marketing knowledge, ERS produces annually 30 issues of periodicals that assess current and prospective foreign demand and competition for U.S. agricultural products. Published reports include the Foreign Agricultural Trade of the United States published bimonthly; the World Agricultural Outlook and Situation and the Outlook for U.S. Agricultural Exports published quarterly with a monthly update; the Food Aid Needs and Availabilities report published semiannually; and regional reports on North America and Oceania, Latin America, Middle East and North Africa, Sub-Saharan Africa, East Asia, South Asia, Southeast Asia, China, Eastern Europe, the Soviet Union, and Western Europe. We make our information available to farmers, consumers, U.S. and international agribusiness firms, universities, foreign governments, international organizations, and public policymakers in the executive and legislative branches of the U.S. Government. In addition to these publications, ERS generates annually on request scores of unpublished briefing papers and memos on foreign demand for U.S. agricultural products for officials of the executive branch, the Congress, businesses, and individuals.

Our ongoing research develops information about the basic factors underlying agricultural supply, demand, and trade and the longer-run prospects for U.S. agricultural exports. Among research projects in 1983 is a joint venture with the Foreign Agricultural Service (FAS) in preparing export market profiles for a number of countries with high potential as markets for U.S. agricultural products. These market profiles provide basic information on food, agricultural, and trade policies; food and feed production and consumption trends and prospects; and trade trends and prospects with special emphasis on expanding U.S. exports to the countries studied. We are currently preparing profiles for eight countries in Africa and the Middle East (Algeria, Kuwait, United Arab Emirates, Iraq, Saudi Arabia, Egypt, Turkey, and Nigeria), four countries in Asia (South Korea, Indonesia, China, and Taiwan), and eight countries in Latin America (Dominican Republic, Brazil, Mexico, Venezuela, Costa Rica, Colombia, Jamaica, and Honduras).

In addition, we are refining and using the tools of economic analysis to determine the effects on U.S. agricultural exports of such factors as foreign agricultural and trade policy changes, foreign economic growth, foreign macroeconomic policies, and exchange rate movements.

CONDITIONS OF RURAL AMERICA

Question: What are the basic ERS findings and conclusions about the current condition of rural America?

Answer: ERS research shows substantial progress in rural economic conditions, but at the same time it shows a persistence of the rural-urban income gap. The metro-nonmetro income gap has been reduced, however, from previous decades when dramatic differences were a root cause of rural out-migration. Nonmetropolitan population grew by 15.8 percent between 1970 and 1980 compared with a growth rate of only 4.4 percent during the preceding decade. In metropolitan areas a comparable figure for 1970-1980 was only 9.8 percent.

By 1980, median family income in nonmetro areas had increased to over $18,000, nearly 80 percent of the metropolitan figure and the number of nonmetro persons with poverty level incomes declined from 11.9 million (19.2 percent) in 1970 to 8.6 million (15.4 percent) in 1980. A mildly disproportionate share of the nation's poor continue to reside in nonmetro areas (39 percent of the nation's poor population but only 32 percent of its total population). Almost all of the nation's poorest counties are rural and have been so since 1950.

The industrial profiles of metro and nonmetro America are now remarkably similar. Manufacturing, construction, transportation, trade, and government comprise very similar shares of metro and nonmetro employment. Agriculture continues to be a more important source of employment in nonmetro areas, but the most inclusive definition of agriculture workers (wage and salary, self employed, and unpaid family) totaled only 8 percent of nonmetro employment in 1979. A comparable figure for 1950 was 14 percent. The industrialized rural economy is not immune to current economic problems. The average annual rate of unemployment in nonmetro areas was 10.1 percent in 1982 compared to 9.5 percent in metropolitan areas. Comparable rates for 1979 were 5.7 percent and 5.8 percent respectively.

Question: How, if at all, do your results differ from those of ORDP and other rural development-related agencies? (Office of Rural Development Policy).

Answer: ERS provides the research-based information on economic and social conditions in rural America to ORDP and other rural development-related agencies for use in policy formulation and development. For example, ORDP relied heavily on ERS information in describing rural conditions and problems in the Administration's newly released report on rural development strategy for the 1980's. Thus, ERS results do not often differ from those of ORDP and other related agencies since they rely heavily on ERS for their information.

P.L. 480 STUDY

Question: I notice that the Foreign Agricultural Service (FAS) has engaged the services of ERS for a study of the P.L. 480 program and international trade. $11,283 was obligated in fiscal year 1982, $20,000 for fiscal year 1983, and $20,000 is estimated for fiscal year 1984. What is the focus of the study? Can you provide the Committee with any results at this point?

Answer: Funds provided by FAS to ERS in fiscal year 1982 were to detail members of our staff to FAS. In one instance, an ERS employee assisted FAS in the reorganization of its international statistical operations. No written reports were prepared. However, ERS's participation in this activity contributed to the planning and development of systems for managing data on U.S. and world agricultural trade and on international economic information. These systems are in operation in FAS. In the second instance, an ERS employee was detailed to FAS to coordinate preparatory work for U.S.-Japan bilateral beef and citrus talks, including the analyses and the preparation of position papers and briefing books on U.S.-Japanese trade policy issues. Major products included briefing books for the U.S. delegations participating in U.S.-Japan Agricultural Consultations on September 30-October 1, 1982, and the bilateral meeting on Japan's beef and citrus quotas on October 20-21, 1982. The ERS employee also prepared material for testimony of the Under Secretary of Agriculture for International Affairs and Commodity Programs at Senate hearings on Japan in September 1982. Additional tasks included providing information and analyses of issues to Department officials on a day-to-day basis on the conduct of agricultural trade relations with Japan. A report of the issues involved in U.S.-Japanese agricultural trade and their implications for demand for U.S. agricultural exports will be included in the forthcoming regional situation report on Asia, to be published by ERS.

FAS budget items for 1983 and 1984 are contingencies in the event FAS requests assistance from ERS for research, analysis, or database development.

ERS does produce a study of world food aid needs each year, which assists the operations staff responsible for P.L. 480 programs. Though FAS does not fund it, the report is made available to FAS as well as to Congress. The report complies with Section 408(b) of Public Law 480 (Agricultural Trade and Development Act of 1954) which stipulates that the President submit to Congress an annual global assessment of food needs. The study--entitled Food Aid Needs and Availabilities (FANA)--provides information on the food situation, food import and aid needs, and financial situation in developing countries. It also includes a discussion of the world food situation and export availabilities from developed countries as these factors affect world food aid supplies. The purpose of FANA is to provide program managers and policymakers with the information needed to make short-term aid allocations and longer-term P.L. 480 program funding decisions.

A copy of the 1982 report is included with this statement for illustrative purposes. This year's report is currently in preparation and will be available in May.

(Clerk's note: The 1982 report has been retained in the files of the Subcommittee.)

PROPOSED CHANGES IN BILL LANGUAGE

Question: You indicated in your request that deletion of dollar "floors" and related provisions is necessary to give you more flexibility, and to avoid exceeding the minimums that have been earmarked in the bill. Why have you exceeded those minimums?

Answer: The minimums have been exceeded because the earmarked activities are integral parts of our basic program of economic analysis and research on commercial agriculture which accounts for three-fourths of our total request for 1984. We are not seeking to avoid exceeding the earmarked minimums, nor do we have any objection to your continuing to earmark these funds if you desire, but since the activities are a continuing part of our basic program, we feel it is somewhat redundant to single them out.

Question: Are you not in violation--at least technically--of exceeding spending authority?

Answer: No, we are not in violation of exceeding spending authority. The earmarked items that we are suggesting be deleted are floors on expenditures, not ceilings. Only one provision in the bill language is a ceiling on expenditures and we are not asking for any change in that. That ceiling applies to employing consultants.

Question: Have there been any negative consequences of your exceeding the minimums, or do you anticipate any problems?

Answer: There have been no negative consequences of our exceeding the minimums, nor do we anticipate any problems in so doing.

Question: What are the "changing needs of Congress" referred to in your request?

Answer: I was referring to the changing needs for economic analysis. I want to maintain sufficient flexibility to direct ERS's allotted resources to the highest priority needs for economic information. I am not predicting how your needs will change, only that they will. And, we need to maintain a base of information and expertise on the food and agricultural system, natural resources, and rural America, and the flexibility to bring that information and expertise to bear on the issues that emerge.

CONSERVATION

Question: What is the status of the interagency research project to establish the long-term relationship between erosion and soil productivity?

Answer: An interagency (Agricultural Research Service, Soil Conservation Service, and Economic Research Service) team of researchers has developed a computational system called "Erosion Productivity Impact Calculator" (EPIC). This system simulates the impacts of weather on growth of plants and related changes in soil conditions, such as nutrient uptake by plant roots, erosion, water runoff, fertilizer leaching, and similar environmental effects. The simulation involves accounting for changes in crop yield and erosion far into the future. The model has been tested on more than 150 sites in the continental U.S. and 13 in Hawaii. The tests have produced reasonable results under a variety of climatic conditions, soil characteristics, and agronomic management practices. Test results have demonstrated that soil productivity is sensitive to erosion. Now that the model is operational, the relationship between erosion and soil productivity for different areas of the United States will be estimated.

Question: How does soil and water resource analysis differ from natural resource data collection? Are both needed?

Answer: Natural resource data collection is the gathering of timely and accurate information on the available quantity, quality, use, and ownership or control of natural resources. Soil and water resource analysis then uses these data in a systematic fashion to answer questions on resource productivity, changes in resource use over time, capacity of resources to adjust to estimated future market levels and product mixes, impacts of government programs on resource use and productivity, and other resource-related areas of concern.

Analysis cannot be undertaken without the systematic collection and maintenance of resource data. Hence, data collection must be part of a sound analytical program. Data collection in the absence of analysis would serve no useful purpose. Therefore, both data collection and analysis are needed in order to provide useful information on resources.

Question: Last year you indicated that you were working on conservation investment decision models in the 11 most erosive areas of the U.S. How are these progressing? Are they still included in the 1984 budget?

Answer: A year ago ERS developed a conservation model and made applciations using complete farm budget data from a Nebraska farm. Soil Conservation Service (SCS) efforts to develop data for three additional farms that would be used to analyze erosion and commodity policy interactions in the most erosive regions of the U.S. are now nearly complete. Upon receipt of the data from SCS, ERS will complete the analysis. We plan additional work in this area in 1984 as an integral part of a study to assess compatibility of USDA commodity programs with conservation objectives.

EXTRAMURAL RESEARCH

Question: What portion of your fiscal year 1984 budget in dollars and percentage is devoted to extramural research?

Answer: To date we have committed about $300,000, or about seven-tenths of one percent of our budget, to extramural research agreements and contracts with universities and private research institutions.

Question: What type of research is being done extramurally in fiscal year 1983 and fiscal year 1984?

Answer: Research under extramural agreements includes: a project to investigate and evaluate the economic opportunities and constraints for small-grain production on small farms; a project to supplement technical information in vegetable production for small farmers with economic information such as detailed enterprise budgets and marketing considerations; and a project on the structure of and costs and returns from dairy farming.

Another project is in the area of pest management economics. This research involves analyzing the economic implications of adopting integrated pest management strategies to control pests affecting production of potatoes, forage, corn, soybeans, small grains, range, beef, and peanuts.

A rural development research project focuses on infrastructure and local government needs, rural credit, and nonmetro labor markets and labor force differentiation. Later, this project will focus on migration behavior and settlement patterns, impact of agricultural labor demands on foreign worker utilization, rural financial institutions, and rural public facilities and services.

Other extramural research is devoted to work on: alternative export marketing policies and their effects on trade in grains and oilseeds; feed, livestock, and food demand and trade in the Middle East and North Africa, in the Caribbean basin, and in selected other developing countries; the effects of instability in world commodity markets and implications for U.S. agricultural and trade policies; the effects of macroeconomic variables--income, money supply, exchange rates, trade balances, interest rates--on agricultural supply, demand and trade; and research on trade and trade policy issues of concern in the 1980's--agricultural protectionism, gains from trade, trade strategy, and export market development.

U.S. EXPORTS

Question: ERS is a major source of economic information on world agricultural production, consumption and trade--and this impacts on U.S. agriculture. What is recent and current research telling us about the position of U.S. agriculture in the world market?

Answer: Currently depressed world demand and abundant world supplies are contributing to declining U.S. export market shares for most major commodities in the 1982/1983 marketing year. Export competition has been intense, especially for wheat, rice, and poultry. Export programs that the United States has undertaken, such as the $900 million in blended credit and a subsidized flour sale to Egypt, will strengthen demand somewhat in selected markets. Crop setbacks in some competing countries--Australia and South Africa--may also help to strengthen demand.

Our analysis indicates, however, that U.S. exports and our market shares will fall this year for wheat, rice, and cotton and improve only slightly for coarse grains. Soybeans and soybean meal are the only major commodities for which U.S. exports and market shares will rise.

Currently we forecast total U.S. agricultural exports to be around $36.5 billion for 1983. Export prospects should improve considerably in the 1983/1984 marketing year as economic growth gets underway in the United States and in the importing countries.

Question: What is your general forecast for production domestically and worldwide for fiscal year 1984?

Answer: It is well to keep in mind that projected 1983/1984 crop production for the United States and the world is very tentative at this time. Our general forecast, however, is that U.S. production will be down sharply in 1983 and crop supplies will tighten in the 1983/1984 marketing year. Heavy participation in acreage reduction programs, especially PIK, suggests that crop plantings will be down significantly in 1983 but higher beginning stocks in 1983/1984 will keep supplies relatively large. Export demand should benefit from economic recovery in the importing countries.

The following tables show our current projections for grains and for soybeans and products. These projections may change as the season progresses and improved information becomes available.

ERS has also developed the tentative outlook for world crop production in 1983/1984. World wheat production in 1983/1984 will most likely resemble that of this year--record yields, record production, and world trade of around 100 million tons. Because of ample worldwide supplies, U.S. wheat exports will probably remain at their current level of nearly 41 million tons. World rice production should increase over this year's levels with continuing low world and U.S. exports.

World coarse grain production will probably increase in 1983/1984. However, world and U.S. trade may recover as economic growth increases the demand for livestock products. We expect world meat production to increase slightly in 1983/1984. Reduced coarse grain supplies from competitors may also improve the prospects for U.S. exports.

World oilseed production will probably rise in 1983/1984 despite the likely decline in U.S. soybean output. Gains in Canadian rapeseed production, French and Eastern European sunflowerseed production, and Chinese soybean production may offset this decline. In the Southern Hemisphere, soybean production should be up. World trade and U.S. exports in 1983/1984 may increase slightly because of higher soybean prices and economic recovery in Western Europe.

World cotton production in 1983/1984 may decline modestly because of acreage reduction programs in the United States and elsewhere. Economic growth in 1983/1984 will be crucial to the prospects for cotton exports as will the effects of reduced petroleum prices on supplies of synthetic fibers.

Economic growth is the key to stimulating demand for U.S. agricultural products in 1983/1984. With economic recovery in the United States and other OECD countries, U.S. agricultural exports should increase markedly in 1983/1984.

U.S. SOYBEANS AND PRODUCTS (Domestic Measure) 1/

Commodity	1981/82	1982/83 Estimates	1983/84 Projections	
			March	Probable variation 2/
SOYBEANS				
Area		Million acres		
Planted	67.8	72.2		
Harvested	66.4	70.8		
Yield per harv.		Bushels/acre		
unit	30.1	32.2		
		Million bushels		
Beginning stocks	318	266	380	
Production	2,000	2,277	2,100	+200/-200
Supply, total	2,318	2,543	2,480	+200/-200
Crushings	1,030	1,125	1,135	+70/ -70
Exports	929	950	970	+70/ -70
Seed and feed	70	70	70	
Residual	23	18	20	
Use, total	2,052	2,163	2,195	+100/-100
Ending stocks	266	380	285	+75/ -75
Avg. farm price ($/bu)	6.04	5.55	5.50-7.25	+1.00/-1.00
SOYBEAN OIL:		Million pounds		
Beginning stocks	1,736	1,103	1,320	
Production	10,979	12,092	12,370	+750/-750
Supply, total	12,715	13,195	13,690	+750/-750
Domestic	9,535	9,800	10,200	+350/-350
Exports	2,077	2,075	2,050	+350/-350
Use, total	11,612	11,875	12,250	+350/-350
Ending stocks	1,103	1,320	1,440	+350/-350
Avg. price 3/	19.0	17.0	15.0-19.0	
SOYBEAN MEAL:		Thousand short tons		
Beginning stocks	163	175	260	
Production	24,634	26,885	27,070	+1700/-1700
Supply, total	24,797	27,060	27,330	+1700/-1700
Domestic	17,714	18,750	19,100	+1100/-1100
Exports	6,908	8,050	7,950	+600/ -600
Use, total	24,375	26,800	27,050	+900/ -900
Ending stocks	175	260	280	+50/ -50
Avg. price 4/	182.50	175	180-220	

1/ Marketing year beginning September 1 for soybeans; October 1 for soybean oil and meal. 2/ The "probable variation" reflects the root mean square error and/or standard error of estimate from trend and judgment. Chances are about 2 out of 3 that the outcome will fall within the implied ranges. 3/ Simple average of crude soybean oil, Decatur, cents per pound. 4/ Simple average of 44 percent protein, Decatur, dollars per short ton.

GRAINS—UNITED STATES

Item	Wheat	Rice (Milled)	Corn	Feed grains 1/	Total grains 2/
	Million metric tons				
1981/82					
Beginning stocks	26.9	.5	26.3	34.6	62.1
Production	76.2	6.0	208.3	248.5	331.1
Supply, total 3/	103.2	6.5	234.6	283.4	393.7
Feed and residual	3.9	---	106.0	127.9	132.0
Food and other use	19.4	2.3	20.6	25.8	47.7
Exports	48.3	2.7	50.0	58.6	109.5
Use, total	71.5	5.0	176.5	212.3	289.2
Ending stocks	31.7	1.6	58.1	71.1	104.5
Average farm price 4/	134	200 5/	98	---	---
1982/83 (Estimated)					
Beginning stocks	31.7	1.6	58.1	71.1	104.5
Production	76.4	5.0	213.3	255.0	337.0
Supply, total 3/	108.3	6.6	271.4	326.4	441.9
Feed and residual	4.5	---	109.2	129.3	134.0
Food and other use	19.2	2.4	22.9	28.1	49.9
Exports	41.5	2.2	52.1	58.9	102.6
Use, total	65.2	4.6	184.2	216.3	286.5
Ending stocks	43.1	2.1	87.2	110.1	155.5
Average farm price 4/	127	176 5/	100	---	---
1983/84 (Projected) 6/					
Beginning stocks	43.1	2.1	87.2	110.1	155.5
Production	61.6	3.6	143.3	178.7	244.4
Supply, total 3/	104.8	5.7	230.5	289.1	400.3
Feed and residual	5.4	---	105.4	127.5	133.2
Food and other use	19.3	2.4	24.2	29.4	51.4
Exports	40.8	2.2	53.3	61.1	104.1
Use, total	65.6	4.6	182.9	218.0	288.7
Ending stocks	39.2	1.1	47.6	71.1	111.6
Average farm price 4/	129-143	187-220 5/	106-122	---	---

1/ Including corn. 2/ Includes rye. 3/ Including imports. 4/ Dollars per metric ton. 5/ Rough rice price. 6/ See individual tables for probable variation.

WORLD AGRICULTURAL OUTLOOK BOARD

QUESTIONS SUBMITTED BY SENATOR COCHRAN

WEATHER FORECASTING

Question: You indicate in your statement that special alerts on critical weather events are provided when they may affect agriculture. To whom and how are these alerts provided? U. S. and foreign countries?

Answer: Farmers and the agricultural community in general are informed through the Weekly Weather Crop Bulletin issued by the Joint Agricultural Weather Facility. The media receives an abbreviated form of the bulletin which we issue as a weekly news release. The Secretary of Agriculture and his top staff receive a memorandum which includes daily highlights of commodity markets and related events; weather information is included. USDA personnel are also informed via weekly weather briefings. The Joint Agricultural Weather Facility is not directly involved in working with foreign countries.

Weather events are monitored daily on a global basis. The Joint Weather Agricultural Facility personnel assess the impact of these weather events on crop condition and crop yield potential, then translate them into both qualitative and quantitative weather statements.

Question: To what extent were you involved in the recent California floods?

Answer: We monitored the severe weather conditions and provided alerts of adverse conditions for agriculture through briefings and press releases. Also, we were in contact with NOAA personnel regarding specific forecasts for the area.

Question: How do you compare in so far as accuracy with other weather forecasting entities?

Answer: We do not forecast the weather, but work closely with NOAA personnel involved in weather forecasting to incorporate outlooks of near future events into our assessment process. Our mission is to examine current and past weather events of the crop season and provide the earliest possible impact assessment to farmers and decisionmakers.

Question: How far into the future can you predict?

Answer: The art in weather forecasting has advanced to the point that the accuracy of short-range forecasts, such as those of one to two days, is about 85 to 90 percent. The accuracy decreases, of course, with longer-range forecasts to about 55 to 60 percent for the 30 to 90 day outlooks.

LANDSAT

Question: It is my understanding that the LANDSAT funds in your budget are used to provide support to SRS if you have to conduct a special study or analysis. What other agencies are involved in LANDSAT activities? For the record, please provide a table showing how your funds were spent in fiscal years 1981 and 1982, and projected for 1983 and 1984.

Answer: The LANDSAT funds requested by the World Agricultural Outlook Board will be transferred as needed to several other agencies as well as the Statistical Reporting Service to facilitate purchase of LANDSAT data to be used in the preparation of research and developmental studies.

In addition to the Statistical Reporting Service, the following agencies are involved in LANDSAT activities: Foreign Agricultural Service, Forest Service, Soil Conservation Service, and Agricultural Research Service.

The World Agricultural Outlook Board did not have funds for the purchase of LANDSAT data in fiscal years 1981 and 1982. As of this date, no specific requests for funds to purchase LANDSAT data in fiscal year 1983 have been received by the World Agricultural Outlook Board from other agencies in the Department of Agriculture. Until a basic level of usage is established, and research plans are clarified, it is difficult to project the volume of data needed by the various agencies. As a preliminary step, we have projected allocations for fiscal years 1983 and 1984. However, it should be noted that flexibility in these allocations is intended, and that the ratio of funds projected to be allocated to agencies could change. It is also quite possible that, as development proceeds, additional agencies in the Department could begin to use LANDSAT data as a source of information.

[The information follows:]

LANDSAT ACTIVITIES
PROJECTED ALLOCATIONS FOR FY 1983 AND 1984

Agency	Fiscal Year 1983 [$000]	Fiscal Year 1984 [$000]
Forest Service	$15	$30
Agricultural Research Service	15	30
Soil Conservation Service	10	20
Foreign Agricultural Service	5	10
Statistical Reporting Service	5	10
TOTAL	50	100

Question: Is the $100,000 budget request sufficient for your needs?

Answer: The $100,000 requested for fiscal year 1984 should be sufficient to cover present requirements of USDA agencies.

Question: If Congress does not provide this budget request, what impact would this have on your program?

Answer: The program of the World Agricultural Outlook Board will not be impacted directly if Congress does not provide the requested funds for the purchase of LANDSAT data. However, from the standpoint of the Department, loss of funds will impair the World Agricultural Outlook Board's continuing efforts to transfer funds to other USDA agencies to develop, test, and integrate LANDSAT data into existing and new information systems.

WORLD AGRICULTURAL SUPPLY AND DEMAND ESTIMATES

Question: How many commodities does the Board now project on world and U. S. supply and utilization data?

Answer: The Board makes projections for wheat, the major feedgrains, soybeans, livestock and dairy, and cotton which are all included in its World Agricultural Supply and Demand Estimates reports.

Question: Are any new ones going to be added in fiscal year 1984?

Answer: No plans exist for adding any new commodities to the estimates report. The addition of the livestock-feed complex analysis took place during the past year.

Question: How do you disseminate this information in a timely manner?

Answer: On a day a report comes out, copies are made available to the press at 3 p.m. Subscribers' copies are mailed within 48 hours. The report is transmitted on an electronic information system. We are currently exploring further use of such electronic dissemination technology to further expedite the delivery of this information in the year ahead.

Question: Are user fees charged for these publications?

Answer: The World Agricultural Supply and Demand Estimates report is available for a subscription fee of $30 a year through the Superintendent of Documents. Free copies are provided to the press, the Congress, agricultural economics departments of major academic institutions, and libraries.

Question: What is the current distribution?

Answer: At present, about 475 copies are sent to subscribers, 600 go out on the so-called free list, and 50 are retained for World Board use per mailing.

LOCKUP FACILITY

Question: Do you plan to make any modifications to this facility in fiscal year 1984?

Answer: We have no plans to make any modifications to this facility in the coming fiscal year.

SUBCOMMITTEE RECESS

Senator COCHRAN. Our next hearing is going to be on Thursday of this week at 9:30 a.m. in room SD–138. At that time, we will hear from witnesses on behalf of the Office of Governmental and Public Affairs, Office of the General Counsel, Office of the Inspector General, Departmental Administration, and Office of the Secretary. Until that time, the committee stands in recess.

[Whereupon, at 10:35 a.m., Tuesday, March 22, 1983, the subcommittee was recessed, to reconvene at 9:30 a.m., Thursday, March 24.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, MARCH 24, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:50 a.m., in room SD–138, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

DEPARTMENT OF AGRICULTURE

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

STATEMENTS OF:

WILMER D. MIZELL, ASSISTANT SECRETARY FOR GOVERNMENTAL AND PUBLIC AFFAIRS

JOHN J. FRANKE, JR., DEPUTY ASSISTANT SECRETARY FOR ADMINISTRATION

ACCOMPANIED BY:

JEANNE M. STANEK, BUDGET OFFICER, OFFICE OF FINANCE AND MANAGEMENT

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

SENATOR COCHRAN'S OPENING STATEMENT

Senator COCHRAN. The subcommittee will come to order.

I apologize to all of you for being late.

This morning we will hear from witnesses on behalf of several offices within the Department of Agriculture. We will operate with two panels.

Our first panel will consist of representatives from the Office of Governmental and Public Affairs and from the Office of the Secretary and Departmental Administration.

The Office of Governmental and Public Affairs serves as the Department's resource for, and liaison with, the Congress, other executive branch offices, and the general public. Its numerous activities are under the direction of an assistant secretary. The President's fiscal year

1984 request is $7.6 million, a slight increase over the 1983 level, including a pay supplemental.

The appropriations recommended by the committee for the Office of the Secretary and for Departmental Administration support the coordination of the Department's basic activities and provide funding for core staff in the offices of top officials. The fiscal year 1984 request for the Office of the Secretary is $5.045 million, an increase of $813,000 over last year's amount, including a pay supplemental. For Departmental Administration, the request is $17.8 million, an increase of $4.1 million over the fiscal year 1983 level.

I want to welcome to the subcommittee this morning my good friend, Wilmer Mizell, Assistant Secretary for Governmental and Public Affairs, and John Franke Jr., Deputy Assistant Secretary of Administration. I understand they are accompanied by Bob Sherman and Jeanne Stanek, budget officers.

PREPARED STATEMENTS

We have copies of statements which have been submitted to the committee. We appreciate having those, and we will include them in the record in full and invite you to make any summary comments that you so desire.

[The biographical sketches and statements follow:]

STATEMENT OF WILMER D. MIZELL

Mr. Chairman, members of the Subcommittee, I appreciate the opportunity to present the fiscal year 1984 budget request for the Office of Governmental and Public Affairs.

This Office is the communication core of USDA. It provides direction, coordination, and leadership in the delivery of information to farmers and consumers; maintains liaison with the Congress and the White House on legislative matters of concern to the Department and the public; and coordinates all programs involving intra and intergovernmental affairs with State and local officials. It is essential that we keep this dialogue going and that the efforts of this Office are efficient, effective, and responsive.

The fiscal year 1984 budget request for this Office is $7,569,000, an increase of $187,000 over the current estimate for fiscal year 1983. This is an increase of only 2.5 percent. It will allow us to keep our Office operating efficiently with no new initiatives. Without this additional funding, our ability to meet program demands would be severely restrained and productivity would fall below the fiscal year 1983 level. Specifically this increase consists of $6,000 for pay cost increases which were absorbed in FY 1983 and $181,000 for nondiscretionary operating cost increases. These cost increases are in several areas which include printing, communications, equipment, supplies and materials.

I would like to talk briefly about the reorganization of the Governmental and Public Affairs Office which was announced January 18 of this year.

The purpose of the reorganization is to provide a leaner, more efficient, more effective management structure for this office. It became apparent during our assessment of the organization that the greatest need was more effective management with greater accountability.

The Governmental and Public Affairs unit has been realigned into the Office of Information, Office of Intergovernmental Affairs, and the Office of Congressional Relations.

The reorganization primarily affects the structure of the information functions of Governmental and Public Affairs. The responsibilities of the information function logically fall into two (2) broad areas; Current Information and Publications and Audiovisual Communication. Therefore, the reorganization calls for a Director of Information with two (2) Deputies.

Linking together like functions under the management of two Deputy Directors, instead of four (4) Assistant Directors permits the free exchange of ideas on related projects, a key element in management development.

The functions assigned to Intergovernmental Affairs are not changed. However, the Congressional Affairs Office is retitled Congressional Relations and reflects two new responsibilities. The Congressional Relations Office is now responsible for reviewing Congressional testimony and clearing of Congressional mail.

This concludes my statement, Mr. Chairman I will be happy to respond to any questions.

BIOGRAPHICAL SKETCH

Wilmer D. (Vinegar Bend) Mizell, Sr.

Wilmer D. (Vinegar Bend) Mizell was sworn in as Assistant Secretary of Agriculture for Governmental and Public Affairs on August 23, 1982. He came to USDA after a career in private industry, as well as in Federal and local government service.

Mr. Mizell, who was born August 13, 1930, in Leakesville, Mississippi, began his career in public service in 1966 as a County Commissioner for Davidson County, North Carolina. From 1968 to 1974, he was elected for three terms to represent the Fifth District of North Carolina in the United States Congress. While in the House of Representatives, he served on the Agriculture Committee and the Public Works Committee. In 1975, Mr. Mizell was appointed Assistant Secretary of Commerce for Economic Development.

While serving in Congress, Mr. Mizell received three Watchdog of the Treasury Awards. He was selected to Who's Who in American Politics, Who's Who in the South and Who's Who in Government. He is Chairman of the Board of Trustees for Toccoa Falls College, Toccoa, Georgia.

He was employed in sales management and public relations by the Pepsi-Cola Bottlers of Winston-Salem and from 1963 to 1968 and in sales and public relations by the Southern Tool Manufacturing Company of Winston-Salem from 1978-1982.

During the 1950s and 1960s, Mr. Mizell was a major league baseball pitcher for the St. Louis Cardinals, the New York Mets and the 1960 World Champion Pittsburgh Pirates.

Mr. Mizell is married to Nancy Ruth McAlphine. They have two sons, Wilmer David Jr., 25, and James Daniel, 20. The Mizells are active members of the Faith Christian Missionary Alliance Church of Winston-Salem.

STATEMENT OF JOHN J. FRANKE, JR.

Mr. Chairman and members of the subcommittee, I appreciate the opportunity to appear today to discuss with you the fiscal year 1984 budget request for the Office of the Secretary, Departmental Administration, the consolidated Advisory Committee and Standard Level User Charges budgets as well as the Departmental Working Capital Fund.

OFFICE OF THE SECRETARY

The appropriation for the Office of the Secretary funds the Department's top level policy officials and their staffs. This includes the Immediate Office of the Secretary, the Deputy Secretary, and the Under and Assistant Secretaries. The Office of the Administrative Law Judges and the Judicial Officer previously funded under this account were transferred to the Departmental Administration appropriation in fiscal year 1983.

The fiscal year 1984 budget request for the Office of the Secretary totals $5,045,000, an increase of $350,000 over the current estimate for fiscal year 1983. Specifically, the increase consists of $53,000 for annualization of the pay costs that were absorbed in fiscal year 1983 and $297,000 to fund the Office of the Assistant Secretary for Governmental and Public Affairs.

Historically, this appropriation has been small and has not provided much flexibility. Growth has been to cover the increased salary rates for both executive and general schedule personnel.

The cost of new offices as well as a large portion of inflationary increases have been absorbed within existing resources. Because our expenses are approximately 75% salary and benefit costs, our only option for living within this tight budget has been to prudently manage lapse funds resulting from delays in filling vacancies, delays in granting promotions and cash awards, and reduction in the use of overtime.

In 1978, when the Assistant Secretary for Governmental and Public Affairs was established, no additional funds were appropriated for this office. As I mentioned, we have been able to support the positions and other operating expenses through savings from lapse and attrition in other offices. Over the past few years, the lapse rate has declined substantially, resulting in fewer dollars available for redistribution. We are therefore requesting $297,000 to provide permanent funding for this office.

In conclusion, I would like to point out that the budget we are recommending for the Office of the Secretary is really to maintain the fiscal year 1983 operating level. The requested increase does not provide for new initiatives or an increase in positions. It merely allows us to continue our present operation.

DEPARTMENTAL ADMINISTRATION

The United States Department of Agriculture is one of the largest, most complex departments in the Federal Government. The present USDA consists of 33 agencies and staff offices with a program budget in excess of $50 billion dollars. It operates and supports over 187 diverse programs with approximately 111,000 staff years.

In order to ensure the efficient and effective management and operation of the Department, 9 staff offices provide staff support to the top policy officials of the Department and overall direction and coordination to the work of USDA's program agencies.

BUDGET REQUEST

The fiscal year 1984 budget request is $17,819,000, an increase of $484,000 above the fiscal year 1983 current level of $17,335,000. This includes $322,000 for annualization of pay that was absorbed in fiscal year 1983, an increase of $362,000 to provide appropriated financing of a portion of Personnel Operations Division; and a decrease of $200,000 for refinancing the equal employment opportunity complaints function.

PERSONNEL OPERATIONS DIVISION

An increase of $362,000 is requested for the Personnel Operations Division of the Office of Personnel. The division is the personnel servicing office for the Departmental Staff Offices, including those offices funded by the Working Capital Fund (WCF). Approximately 75% of their time is spent on the WCF activities, and the remaining 25% is spent servicing the appropriated accounts. Previously, this division was funded entirely by the Working Capital Fund.

During fiscal year 1981, the Department established a task force to review the activities and the financing structure of the Department's Working Capital Fund. Several changes were proposed and some items were removed from the fund. All but one of these refinancing requests, a portion of the personnel operations function, was absorbed internally, within existing resources and accounts, and without requiring additional appropriated funds.

Because the fiscal 1983 budget had already been submitted, the change requiring additional appropriated funds was financed through interim reimbursments from the Department's agencies and staff offices during fiscal years 1982 and 1983. Today, we are requesting increased appropriated funding of $362,000 for that portion of the Personnel Operations Division providing services to appropriated accounts. This switch in financing will reduce reimbursable charges to the agencies.

EQUAL EMPLOYMENT OPPORTUNITY COMPLAINTS ACTIVITY

Our budget request also contains a decrease of $200,000 from the appropriated account and a new reimbursement mechanism to refinance the Equal Employment Opportunity complaints function. Under the proposed arrangement, acceptances, investigation requests and reviews, hearings requests, fiscal adjudications, and EEOC appeals of EEO complaints under Title VII of the Civil Rights Act would be funded by reimbursement from user agencies of the Department.

This in no way represents a decrease in either emphasis or resources for this program. It simply means that the agencies will reimburse the Office of Personnel for this service on an "as-used" basis. This method of financing encourages agencies to resolve the issues as the earliest possible stages when there have been indications of an impropriety.

CONSOLIDATED APPROPRIATION ACCOUNTS

The Agriculture, Rural Development and Related Agencies Appropriation Act for fiscal year 1983 established two new accounts within my jurisdiction, a consolidation of the Department's Advisory Committees and a consolidation of the Department's payments to the General Services Administration for space and related services.

ADVISORY COMMITTEES

The Advisory Committee appropriation provides for direction and financial support of all authorized Department of Agriculture advisory committee activities, other than those included in the Forest Service or those financed by other than than appropriated funds.

The Department and several of its agencies use advisory committees to provide supplemental and specialized expertise from persons in academia and the private sector on a broad range of issues. Because it is not feasible to maintain these experts as permanent staff, the committees provide a framework for assuring that decisions on major issues are based upon state-of-the-art information.

The Explanatory Notes indicate that 41 non- Forest Service Committees are planned for fiscal year 1984. Our most recent projection is that there will actually be 40 committees; 15 are established by statutes, and the remaining 25 are established by the Department either independently or with the concurrance of Congress. The number of committees currently planned for 1984 is three less than 1983. That is because the Dietary Guidelines Committees, the Task Force on on Farm Income Protection Insurance Program and the Soybean Research Advisory Institute will have completed their work prior to the end of 1983.

After carefully reviewing the funding needs and activities of each committee, we are requesting an appropriation of $1,398,000 for fiscal year 1984, the same amount that was appropriated for fiscal year 1983. Changes in funding requirements of individual committees or the addition of new committees will be accomplished within this level.

STANDARD LEVEL USER CHARGES

This appropriation provides partial funding for the Department to pay General Services Administration's fees known as "Standard Level User Charges" or "SLUC" for rental of space and related services. This new account represents a consolidation funds previously included in the individual appropriations for all agencies and offices of the Department except the Forest Service. It also excludes SLUC costs paid from trust funds, the Working Capital Fund, and other non-appropriated funds.

The fiscal year 1984 budget request is $69,402,000 an increase of $13,025,000 above the fiscal year level of $56,377,000. This increase is our best estimate of the Department's SLUC charges for fiscal year 1984 at GSA's rate structure for that year. Because the fiscal year 1983 level was held at the fiscal year 1982 rates, the $13 million represents the impact of a two year rate increase.

DEPARTMENTAL WORKING CAPITAL FUND

Representatives of this Department have been working with this Committee in its oversight role in regard to the Departmental Working Capital Fund since legislation to establish this funding mechanism in the Department was passed in 1943. We can both take pride in what has been accomplished through this funding mechanism over the nearly forty years it has been available to the Department.

The National Finance Center in New Orleans, Louisiana, serves as a model for the entire Federal Government pointing the way to effective provision of centralized finance, accounting, payment, personnel, and property data processing and record keeping. Departmental Computer Centers in Washington, DC; Kansas City, Missouri; Ft. Collins, Colorado; and, for a while yet, St. Louis, Missouri; provide cost effective data processing services to USDA agencies. Here in D.C. this funding mechanism has provided the means to finance centralized services in the areas of supply, forms, copier, mail, printing and reproduction, as well as photography, video, film and design services.

Over the past year we have been putting in place improved management control and oversight mechanisms to insure the intergrity and financial health of these central service activities. I would like to point out two features of this improved management control structure.

First, those agencies that use these central services are vitally interested in keeping the costs for these services as low as possible. Drawing from these agencies we have set up an Interagency Advisory Board to act as a "Board of Directors" in reviewing the budgets for these activities and advising me as "Chief Executive Officer" over these activities. This year's budget is the first to receive the review and scrutiny of this board.

Second, we have established the function of Comptroller of the WCF. This function is organizationally separate from the direct supervision and management of the central service activities financed through the fund. The comptroller is therefore free to serve as my unbiased source of information on the financial condition of these operations and is in a position to recommend actions in the best interest of the overall operation of the fund.

Both of these mechanisms are in the first year of their existence. They join the existing oversight and management structure as welcome additions to insure that the next forty years of this funding mechanism will be as beneficial to the agencies of the Department, the Federal Government, and to the taxpayers as the past forty have been.

PROPOSED LEGISLATION

Mr. Chairman, over the past forty years the language of the originial act establishing the Departmental Working Capital Fund has been overtaken by time. What $1.00 would buy in 1943 when this language was written would now cost $5.70. It is time to revise the basic language establishing this funding mechanism in the Department. We have prepared and are submitting to the Congress a legislative proposal to accomplish this much needed revision.

This legisation would increase the authorized level of capitalization from $400,000 to $30,000,000. It would recognize the actions of this committee in recent years in providing for the transfer of growth capital from USDA agencies, the accumluations of earnings in the early years of the fund, and the absorption into the fund of the assets of activiites brought under the Departmental Working Capital Fund in accordance with the current provisions of the 1943 Act.

The original $400,000 capitalization level of the 1943 Act was approximately 40% of the annual operating level of the Departmental Working Capital Fund at that time. The $30,000,000 level is appropriate to the $90 plus million operating level expected in FY 1984. Currently the Government's equity in the Department Working Capital Fund is $11.8 million, so this level would leave room for necessary growth over the next few years.

FY 1984 OPERATING LEVELS

Two factors are chiefly responsible for the change between the FY 1983 and the FY 1984 level of obligations needed to support the central services activities financed through the Departmental Working Capital Fund. First, there are the changes we expect in the prices of the goods and services needed to operate these central services. Second, there are the changes in the quantity of goods and services needed to provide the level of central services we expect USDA agencies to require. Usually these two factors are grouped under the headings of "inflation" and "workload" respectively.

Inflation. The overall cost of operating centralized services activities financed through the Departmental Working Capital Fund is projected to be $3,226,000 higher in FY 1984 than in FY 1983.

This represents a 4% increase over the FY 1983 operating level. Although our recent experience has been with higher inflation rates, we believe the current lower level of price increases will continue through FY 1984. Therefore, we feel confident in projecting this lower increase in operating costs. It reflects price increases for services activities in providing the goods and services needed by USDA agencies.

Workload. Additional goods and services necessary to respond to changes in the levels of central services required by USDA agencies will mean a net increase in operating costs of $999,000 in FY 1984 above the FY 1983 obligation level. These changes and their associated costs are:

- A decrease in printing volume by USDA agencies will result in a net decrease of $177,000 in the operating costs of the Departmental Printing Plant.
- The inclusion of additional agencies in the Department's centralized accounting, financial, payroll, personnel, and property processing and record keeping system; our continuing effort to improve these systems to meet specific agency needs, and greater access to these data bases will require an increase of $424,000 beyond the FY 1983 obligation level in the operating costs of the National Finance Center.
- The expected increase in the volume of data processing services required by USDA agencies will increase operating costs of the Departmental computer centers by $752,000 above their FY 1983 obligation level. This will finance the lease of equipment, purchase of additional supplies, telecommunications and other services needed to meet this increase in service level.

Taken together, inflation and workload increases are expected to increase the FY 1984 obligation level for WCF financed central services operations by $4,265,000. This is approximately 5% above the FY 1983 level.

CAPITAL EQUIPMENT ACQUISITION

These workload increases and the need to improve the efficiency of operations result in a net increase of $240,000 over the FY 1983 capital procurement level of $3,760,000 to an FY 1984 capital procurement level of $4,000,000. We project this level would fund the capital acquisitions indicated in our explanatory notes.

In November, a review of all leased equipment installed in Departmental Working Capital Fund activities as of October 30, 1982, was completed. This analysis (summarized in chart 1) showed that installed leased equipment worth $6.6 million ought to be purchased. WCF activities are currently spending $6.5 million in annual lease payments for this same equipment. Over the projected useful life remaining to this equipment, $12.3 million in costs could be avoided if it were purchased rather than leased.

Additionally, in the FY 1984 budget development process both FY 1983 and FY 1984 capital procurement needs were reviewed. An $8.3 million worth of needed capital procurements were specifically identified for FY 1983 and $9.2 million for FY 1984. Together with the installed leased equipment, this amounts to a need for over $24 million in capital procurement funds over the next two years.

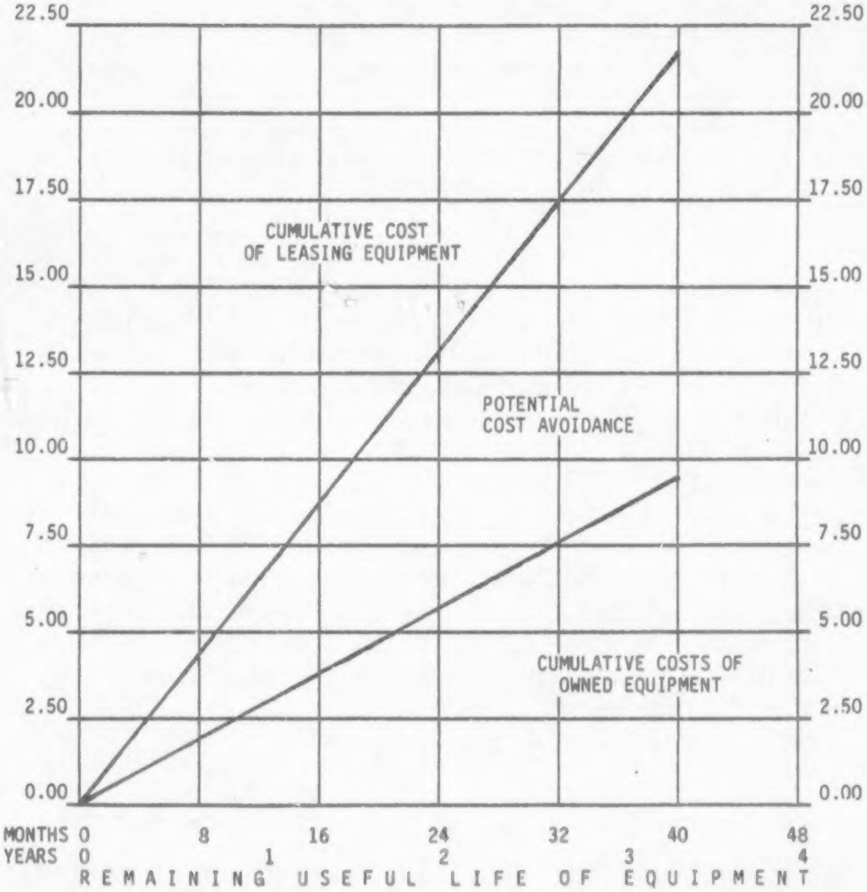
The resources available to the Department WCF will provide less than $8 million dollars of capital procurement funding over this period. This means that central services activities will have to reexamine their equipment needs. This reevaluation and ordering of needs will be healthy. Some equipment they believe they need, they will have to do without; but some equipment will be essential. Most likely some items that ought to be purchased will be leased, and this will result in a higher cost than necessary over the useful life of the equipment. We plan to accomplish those procurements with the most favorable lease/purchase advantage first, to minimize the negative impact of these leases.

Under these circumstances USDA agencies should have the opportunity to transfer funds for the purchase of this equipment to the Departmental Working Capital Fund so as to reduce the overall costs of the services they obtain. Unfortunately, there is not enough flexibility in the current language limiting such transfers to adequately provide for this. In order to provide this flexibility we have proposed a revision to Section 607 of the General Provisions. This revision would limit such transfers in any fiscal year an amount equal to 5% of the operating level of the fund. In many years transfers would be below this limit but the flexibility to make transfers of appropriations up to this limit would be available to provide an overall cost avoidance to the agencies, the Department, and the Taxpayer.

CHART 1

ESTIMATED COST AVOIDANCE TO USDA AGENCY APROPRIATIONS RESULTING FROM THE PURCHASE OF INSTALLED LEASED WCF EQUIPMENT

(Amounts are in millions of dollars)



NOTE: FORTY MONTHS REPRESENTS THE WEIGHTED AVERAGE OF THE USEFUL LIFE REMAINING FOR THE LEASED EQUIPMENT SHOWING A POTENTIAL FOR COST AVOIDANCE THROUGH PURCHASE IN THIS ANALYSIS.

BIOGRAPHICAL SKETCH

John J. Franke, Jr.

Mr. John J. Franke, Jr., was sworn in as Assistant Secretary for Administration on March 11, 1983 by Secretary John R. Block. In this position he provides Departmental leadership in the area of administrative management and exercises general direction over nine staff offices. The offices are Board of Contract Appeals, Office of Administrative Law Judges, Office of Administrative Systems, Office of Finance and Management, Office of Information Resources Management, Office of Minority Affairs, Office of Operations, Office of Personnel and Office of Samll and Disadvantaged Business Utilization.

In 1981, Mr. Franke was appointed as Regional Administrator for Region VII of the Environmental Protection Agency, Kansas City, Missouri. As Administrator, he served as the primary Regional official for representing national environmental concerns, policies and programs.

Mr. Franke was elected to three consecutive terms, 1973 to 1981, as County Commissioner from Johnson City, Kansas and as Chairman, Board of County Commissioners in 1974, 1976 and 1979. He served as Mayor of the city of Merriam, Kansas from 1971 to 1972 and a city Councilman from 1965 to 1970.

From 1952 to 1972, Mr. Franke was President and Chief Executive Officer of Frank Barber Supply, Inc. of Kansas City, Missouri.

Mr. Franke was born in Tonkawa, Oklahoma. He is married to Melba Jean "Midge" Franke. they have three sons and reside in Merriam, Kansas.

OFFICE OF GOVERNMENTAL AND PUBLIC AFFAIRS

Senator COCHRAN. Welcome, Mr. Secretary.

Mr. MIZELL. Thank you, Mr. Chairman. It is indeed an honor for me to appear before this committee. I do have some very brief remarks.

This office is the communication core of USDA.

Our fiscal year 1984 budget request for this office is $7,569,000, an increase of $187,000 over the current estimate for fiscal year 1983. This is an increase of only 2.5 percent. It will allow us to keep our office operating efficiently and with no new initiatives. Specifically, this increase consists of $6,000 for pay cost increases which were absorbed in fiscal year 1983, and $181,000 for nondiscretionary operating cost increases. These cost increases are in several areas which include printing, communications, equipment, supplies and materials.

With that, Mr. Chairman, I would be glad to respond to any questions that you might have.

Senator COCHRAN. Thank you, Mr. Secretary.

Mr. Franke?

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

Mr. FRANKE. Mr. Chairman, I too am more than pleased to be here. I won't dwell on many of the items you already mentioned.

I am here to discuss five budgets of the Department of Agriculture. You already mentioned the Office of the Secretary and Departmental Administration. I would like to mention briefly advisory committees, standard level user charges, and the working capital fund.

ADVISORY COMMITTEES

The advisory committees budget request is $1.398 million. That is the same as last year. Any changes in funding requirements regarding advisory committees will be accomplished within that level.

GSA SPACE

With regard to standard level user charges, our request is $69,402,000. This represents an increase of $13,025,000 over 1983. This is our best estimate of the Department's SLUC charges for 1984. The $13 million increase does represent a 2-year rate increase, because our fiscal year 1983 level was held at 1982 rates.

WORKING CAPITAL FUND

Finally, our working capital fund does indicate an increase of $4.5 million above our current year level. Principally, the increase consists of $3.2 million for inflation and $999,000 for workload changes. These workload changes are additional services requested by agencies for central activities. We do have $240,000 requested for increases in the dollar volume of capital acquisitions.

Finally, we have a piece of proposed legislation we have prepared and are submitting to the Congress to change the language of the original act establishing the departmental working capital fund. The proposed legislation would increase the authorized level of capitalization from $400,000 to $30 million. The original $400,000 capitalization of the 1943 act was approximately 40 percent of the annual operating level of the fund at that time. This new level is appropriate to the $90 million-plus level we have in today's working capital fund.

Mr. Mizell and I would be more than pleased to answer any questions the committee may have.

Senator COCHRAN. Thank you very much.

INCREASE FOR DEPARTMENTAL ADMINISTRATION

In looking over the numbers, there does seem to be a fairly substantial increase in one item, and that is the Departmental Administration, going from a level of $13,690,000 last year to a request of over $4 million more—$17,819,000 for this year. I know you have taken a hard look at all these requests, and they have to go up through the chain of command and be combed through OMB. I know there is some very careful scrutiny, but that number sort of jumps out at you.

Mr. FRANKE. Mr. Chairman, may I address that level? About $3.9 million is a transfer from the agencies for the headquarters office of the Office of Information Resources Management. In other words, it was taken from the agency's accounts and transferred to the Departmental Administration account. It is not an increase to the Department's budget. There is a corresponding decrease within the agency's activities. Departmental Administration does show an increase of $484,000 in additional dollars.

OFFICE OF CONGRESSIONAL AFFAIRS

Senator COCHRAN. Last year, we had the Office of Congressional Affairs as a separate account. This year, it is included under Governmental and Public Affairs. As I understand, this is part of the reorganization which you have in your statement.

Mr. MIZELL. That is right, Mr. Chairman. It just permits us to have a little more flexibility, and we think it will help us be more effective in managing the total agency.

Senator COCHRAN. Is there a breakdown in your statement or in the request that would show how much is being required by the Office of Congressional Affairs within that larger account?

Mr. MIZELL. Yes; in fact, the committee already has the information.

Senator COCHRAN. We have those numbers?

Mr. MIZELL. Yes, sir, the request totals $477,000.

LIAISON FOR BUDGET MATTERS

Senator COCHRAN. There is a problem that has been called to my attention and that I wanted to bring up at this time. When we contact the Department for information, for instance, when we are scheduling a hearing or trying to get information, we end up dealing with two or three different agencies or offices, and I wonder whether or not this might indicate that there is a need for some reorganization, streamlining, or a more careful definition of responsibility. It appears the budget officer has to check with somebody else before he can get back to the committee with the requested information, and I wonder whether or not there is a duplication here between the Office of Congressional Affairs and the Office of Budget and Program Analysis when dealing with the Appropriations and Budget Committees. Was there any recent kind of policy change that requires all that information to be filtered through the Office of Governmental Affairs, or what is the situation with that?

Mr. MIZELL. Mr. Chairman, appropriations and those matters directly related to appropriations are still under the Budget Office. Congressional hearings related to legislative matters and congressional relations, particularly, come under the Office of Governmental and Public Affairs.

I can unequivocally state that there has been no policy change insofar as providing your committee members or your committee staff with any information requested. It has been understood generally that the Appropriations Committee relies heavily on the Department's Budget Office or the agency budget offices for their information. I can understand how distracting it must be to your staff to receive duplicate questions and inquiries regarding the scheduling of a hearing. Many of our agency legislative offices have new personnel, and it could be that they have not yet understood the close relationship which exists between the budget offices and the committee. It is also true that many of the budget officers in the various agencies are depending more heavily upon assistance from the legislative offices as their functions do sometimes interface since legislative initatives do require appropriations.

You and your committee can be assured that there is no duplication of responsibility between the Office of Congressional Relations and the Office of Budget and Program Analysis when dealing with the Appropriations and Budget Committees. We do have in the Office of Congressional Relations one designated liaison officer who coordinates with the Budget Office, since it is important for me and the Congressional Relations Office to be aware of budgetary and appropriation matters. He serves as a conduit between both offices and is instructed to sit in on hearings, markups, and conferences whenever space is available. We try to be as responsive to the Congress as possible. Since our office is expected to be fully aware of what is transpiring in the Appropriations Committees, as well as the legislative committees, it is imperative our congressional liaison officers be as informed as possible, and we encourage them to be. The Budget Office has been helpful in keeping us abreast of the facts.

There is a very clear line of distinction, however, between the functions of the two offices. It is clearly understood that the Budget Office schedules and is responsible for the hearings on appropriations. The Office of Congressional Relations is, however, charged with other hearings and as indicated by Secretary's Memorandum 1020–8 is charged with the clearance of all departmental testimony other than that of the appropriations process.

I have given you a long answer Mr. Chairman, but each office serves its own purpose, fulfills its own charter, and complements the other in fulfilling the overall mission of the U.S. Department of Agriculture.

Senator COCHRAN. Apparently, this has resulted in some delays in getting information. I think that is our principal concern. We had occasions when we were marking up a supplemental appropriations bill and again dealing with the jobs bill, and we were trying to get numbers; it just seemed like we ended up talking with too many people. Had it been a simple matter, we would have gotten a more prompt response if we had known who to talk to, to begin with. There seemed to be a change in policy or a lack of freedom to release information promptly, and this resulted in delays and some awkward situations developing during the recent markups and conferences that we have been involved in.

YEARBOOK OF AGRICULTURE

Are we going to have a yearbook this year? What is the situation with that?

Mr. MIZELL. Yes; there will be a 1983 Yearbook of Agriculture. The yearbook is part 2 of the Secretary's annual report, which is required by law.

Senator COCHRAN. Is that in the request?

Mr. MIZELL. Yes; in fact, the working title for the yearbook this year is "A Better Life From Our Natural Resources." We think it is very timely, because we have a great deal of natural resources on hand.

Senator COCHRAN. Are you going to print about the same number, and if so, what is the projected cost of the 1983 yearbook?

Mr. MIZELL. We have budgeted $500,000 for the yearbook, and we would anticipate printing about the same number. As you know, Mr. Chairman, this is one of the more popular publications that we do, and so we intend to continue about the same level.

REDUCTION IN CONSUMER PUBLICATIONS

Senator COCHRAN. We had some complaints about the reduction in publication of some consumer pamphlets and other items that have also been very popular. I understand that the Consumer Information Center had only about 885,000 copies of consumer publications printed in 1982, and we had some complaints about the reduction in these publications. Is there any plan to increase those numbers or are you constrained by the budget to keep those at low levels?

Mr. MIZELL. Mr. Chairman, we are relying more on publication sales, and we are not providing as many free copies. People can go to the Superintendent of Documents and order whatever number of sales publications that they might need. Then, of course, the Superintendent of Documents has the responsibility for seeing that publications are printed and provided for sale. We estimate that we will print about 430 publication titles in fiscal year 1983—new, revisions, and reprints—contrasted with 536 in fiscal year 1982. For 1984, we anticipate a further reduction of about 15 percent.

Senator COCHRAN. I know that Senator Mathias from Maryland has indicated his concern about the reduction in these publications. He sent a letter, a copy of which I have, to all Federal departments and agencies dated October 1, 1982. In that letter he mentions that the Consumer Information Center (CIC) is designed to be the most cost-effective method of distributing essential and useful consumer information. Has any consideration been given to restoring the funds for this program?

Mr. MIZELL. Yes; in the past there was a direct appropriation in our area to print and distribute publications through the Consumer Information Center. But since then we have moved toward a sales program. I understand that the responsibility rests directly with the Superintendent of Documents in order to provide whatever publications they need. That is the avenue that is open to them, as I understand it.

Senator COCHRAN. Well, I don't know what the jurisdictional situation is, but the Joint Committee on Printing apparently is attempting to require that any transition to a user fee system has to be submitted to the Joint Committee on Printing for approval. Have there been any meetings within the Department that you know about or have you participated in any dialog or exchange of information with the Joint Committee on Printing in connection with this item?

Mr. MIZELL. It is my understanding that USDA and JCP representatives have met several times to review this matter. I also understand that the USDA has had a standing committee and task force that has met often to consider these things and to set or recommend policy in this area. The USDA has submitted extensive material to the Joint Committee on Printing.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you, Mr. Mizell. I do have some additional questions which I will submit to you in writing and ask that you respond to them for the record.

[The following questions were not asked at the hearing but were submitted to the Office of Governmental and Public Affairs for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

OFFICE OF CONGRESSIONAL AFFAIRS

Question: Last year Congress broke out the Office of Congressional Affairs in the Fiscal Year 1983 Agriculture Appropriations Bill. Please explain why you want it included under Governmental and Public Affairs.

Answer: The Assistant Secretary for Governmental and Public Affairs has jurisdiction over three separate and co-equal offices which comprise the area of his jurisdiction--the Office of Congressional Relations, the Office of Intergovernmental Affairs, and the Office of Information. Each office has its Director who, in turn, reports to the Assistant Secretary.

Last year, the House Committee on Appropriations set up a separate budget for the Office of Congressional Relations for Fiscal Year 1983 and the Senate concurred in conference never having put such language in its bill. Since the Office of Congressional Relations is a part--and a vital part of the Office of Governmental and Public Affairs--it is the Department's judgment that it should be included as a sub-appropriation within the OGPA account.

INDIAN AFFAIRS DESK

Question: It is my understanding that pursuant to a Secretary's Memorandum, the "Indian Affairs Desk" activities were transferred from the FmHA to Governmental and Public Affairs.

Why was this transfer made?

Answer: Shortly after Secretary Block came to the Department of Agriculture and after meetings with tribal delegates, he expressed concern about the American Indian population and whether this group was being served by the programs available in USDA as they are to the rest of the population.

His concerns were such that on August 18, 1982, Secretary Block reassigned the Indian Affairs' activity of the Department to the Office of Intergovernmental Affairs, Governmental and Public Affairs. There, Indian Affairs' activity is treated as a separate and highly visible unit with authority to work with tribal governments as this office does with State and local governments to provide more efficient, direct and appropriate service benefits to the public.

INTERGOVERNMENTAL AFFAIRS

Question: What type of role does the Office of Intergovernmental Affairs play in matters relating to natural disaster policy?

Answer: The role of the Office of Intergovernmental Affairs is to provide a central coordinating point within USDA, and provide a single coordinating office for the Federal Emergency Management Agency (FEMA) to coordinate USDA response to a disaster. The USDA renders many types of assistance in emergencies caused by natural disasters. The nature and scope of a disaster determines which types of assistance are available, and which will be authorized for implementation. The USDA disaster programs are coordinated by the Director, Intergovernmental Affairs, Governmental and Public Affairs, with the USDA operating agencies, USDA State and County Emergency Boards and FEMA. Depending on the nature and severity of a natural disaster, USDA is prepared to implement several disaster related programs.

AGRICULTURAL YEARBOOK

Question: How many Yearbooks were printed last year? How many were provided to the Senate and House last year?

Answer: There were 248,947 Yearbooks printed by the USDA last year; 233,450 of these were provided to the Senate and the House, and 15,497 were printed for agencies in the Department of Agriculture.

Question: What was the total cost of last year's yearbook and what will it be for the 1983 Yearbook?

Answer: Costs for the 1982 Yearbook are estimated at $500,000.

We expect that the costs for the 1983 Yearbook will be close to the 1982 figure. We will not know the details of the make up of the 1983 Yearbook until this fall. Printing costs are also subject to the bids we receive for printing the book.

DIETARY GUIDELINES

Question: The publication of "Dietary Guidelines" has been a matter of some controversy. What is your current program in this area and what are your future plans?

Answer: "Nutrition and Your Health: Dietary Guidelines for Americans" was issued by the Department in cooperation with the Department of Health and Human Services in February 1980. It was published because of continued intense interest in the subject. USDA's free distribution of the pamphlet ended several months ago when the Department's supplies were largely exhausted. Since then, GPO has continued to sell copies for $2.25 per copy. Because of the state of knowledge in nutrition and dietary planning continues to advance, it is now desirable to review the contents and the recommendations contained in the "Dietary Guidelines." To perform this review, a Dietary Guidelines Advisory Committee is being established by the Department, in accordance with directives of the Congress.

OTHER INFORMATION UNITS

Question: Please describe the relationship between your public affairs activities and the other agencies within the Department who publish or distribute information, publications, etc.?

Answer: The Office of Information in the Office of Governmental and Public Affairs is delegated the final responsibility for all public information activities of the Department of Agriculture.

There are two ways to do that: One is to locate all USDA information specialists in the Office of Information where all USDA public information would be planned, developed, written, and released by the central office. The other is to place information specialists in individual agencies to work directly with agency scientists, specialists, and program people to plan, develop, and write materials--with this work led and coordinated by the central information office that edits, reviews, and releases the final information materials.

The Department of Agriculture uses the second of those two approaches; therefore, it has a modified central information operation. Agencies are authorized to release regional and local information.

The Office of Information meets weekly in a planning session with all agency information directors, where policies and procedures are developed and discussed. There are countless meetings, conferences, and working relationships daily between the central Office of Information and the information specialists in the agencies. In turn, the agency information offices are responsible for providing leadership, policies, directions, advice, and management assistance for regional, state, and local information activities of USDA agencies.

REDUCTION IN CONSUMER PUBLICATIONS

Question: Are any publications being distributed free of charge either through the CIC or the Superintendent of Documents?

Answer: The current policy in the Department of Agriculture is to restrict free distribution of publications to 1,000 copies. Exceptions to that policy may be made when an Under Secretary or Assistant Secretary requests exemptions for publications that are necessary to carry out a program or for recruitment. Publications required by law are also exempt. Some of those exempt publications are being distributed through the CIC and Superintendent of Documents free of charge.

Question: What impact has the USDA withdrawal had on the CIC program:

Answer: The Consumer Information Center can better judge the impact on its overall program and we respectfully suggest you contact them directly.

Question: Have other agencies of the Federal Government reduced support for CIC? Please provide details for the record.

Answer: The CIC indicates that the U.S. Department of Agriculture is the only agency which has notified its appropriations subcommittee that for policy and budgetary reasons it has completely withdrawn from the CIC program.

Question: I have been advised by Senator Charles McC. Mathias, Jr., Chairman of the Joint Committee on Printing, that the CIC is designed to be the "most cost effective method of distributing essential and useful consumer information." What is your response to that statement?

Answer: We can answer only for the Department of Agriculture. Under previous policies in the USDA, the CIC was a very effective and efficient method of distributing consumer publications free-of-charge. Now, that we confine the free distribution of general USDA publications to 1,000 copies, the CIC is not an effective outlet for us since listing our free publications in the CIC Catalog would bring in several thousand requests.

The CIC is still offering USDA for-sale publications in its catalogs, along with the consumer publications from other Departments.

Question: What impact has this withdrawal had on the quality and quantity of information that is available to the public?

Answer: The quality of USDA publications is as good as ever. The quantities of those USDA publications sold by the Superintendent of Documents, and through the Consumer Information Center, are unlimited, as always.

The Superintendent of Documents determines which USDA publications are sold to the public, and through the years there have always been a large number of USDA publications for sale.

Presently, the USDA is not giving away as many copies of publications as in the past. Our policy is to restrict free distribution of general publications to 1,000 copies. Publications which officials of the Department determine are essential to carry out programs are exempt from the 1,000 limitation.

Question: Is USDA planning to establish its own user fees system for the distribution of these publications?

Answer: At the present time, when the USDA or any other Department charges for a publication it must turn the proceeds over the Treasury--unless there is legislation permitting the agency to keep the funds.

Departments do not like to take on the added cost and burden of charging for publications; keeping financial records; bonding employees who handle the funds; and maintaining inventory control of "for sale" publications, only to turn the proceeds over to the Treasury. This increases budget costs for the Department, requires more staff time, and has no off-set.

The 1981 Farm Act did provide that the Department could retain "user fee" funds for certain kinds of publications in the economics and statistical area. The legislation, however, pointedly ties this to the traditional "user fee" concept, which is a charge for ad hoc requests for a special service not generally provided. For example, the USDA might provide free copies of publications to certain individuals or at a designated "pick up" point. If others requested a copy or wanted to have a copy mailed to them, they would have to pay "user fee" charges for a special service not generally provided.

There is some question as to whether you can "advertise" and list such publications as being available for specified charges. The Joint Committee on Printing maintains that this is a "sales program," not a "user fee" program to cover ad hoc requests for special services not generally provided.

The Joint Committee on Printing notified all Departments last October that it holds that such "charge programs" for periodical subscriptions and for publications are "sales programs," and that it is the clear intent of the law that sales of Government publications and subscriptions for Government periodicals is reserved for the Superintendent of Documents. The Joint Committee has notified all Departments that they must get clearance from the Joint Committee before establishing such "sales programs" for publications. The USDA is cooperating with the Joint Committee in this effort.

Two or three USDA agencies had set up advertised "publication charge programs" prior to the receipt of the letter from the Joint Committee on Printing. Information on those programs has been supplied to the Joint Committee, and we have not heard from the Joint Committee regarding the disposition of the matter.

Question: Senator McC. Mathias is also concerned that legislation to establish a user fee system might conflict with the provisions of Title 44 that provide a centralized mechanism for the distribution (sale or free) of all Governmental publications. (A copy of Senator McC. Mathias' letter is attached.) Please provide the committee a copy of your response to Senator McC Mathias' letter.

Answer: A copy of our reply to Senator McC. Mathias is provided for the record.

[Clerk's note: The forms provided with the reply to Senator Mathias have been retained in the Subcommittee's files.]

LETTER FROM SENATOR MATHIAS

October 1, 1982

TO: HEADS OF ALL FEDERAL DEPARTMENTS AND AGENCIES

The Joint Committee on Printing (JCP) has been requested to clarify pertinent sections of Public Law and existing Government Printing and Binding Regulations regarding the distribution and sale of Government documents to the public, and the recovery of certain user fees associated with the distribution of public documents to the general public by Federal agencies.

The Joint Committee on Printing fully recognizes that specific agencies are required by public law to provide for the generation and distribution of information for the public. To meet the printing and distribution requirements of those agencies, the Congress established appropriate avenues to accomplish such activity through the Government Printing Office. Neither the law nor the Joint Committee on Printing sanctions the independent establishment of publication sales activities by agencies.

The provisions of Section 1701 et. seq. of Title 44, United States Code, clearly place the authority to distribute and sell Government publications in the Government Printing Office. These provisions are reinforced by 31 USC 483a. The reasons underlying this statutory scheme are based upon the principle of minimizing the cost of such operations to the government, as well as easier access to the public. The establishment of centralized facilities for the distribution and sale of Government publications eliminates duplication of effort in a variety of ways. For example, it would be most wasteful for each Government department and agency to establish warehouse facilities; purchase distribution, handling and labeling equipment; create and maintain systems for accountability of receipts and inventory; and hire staff to run these operations.

To serve the needs of the departments and agencies and the public, the Public Printer and the Superintendent of Documents have established a number of ways to disseminate public domain documentation to the public. Under the first system, a "rider requisition" is placed against an agency printing order, extra copies are printed and placed on public sale. This is a "full cost recovery" system under which all costs associated with the sale and distribution of these publications are recovered by the Government Printing Office. Cost recovery includes printing and binding costs, as well as the associated overhead costs, such as publicity, order handling, stocking and distribution.

Under a second system, the Superintendent of Documents authorizes the establishment of "consigned agents" within agencies. This permits the agency to receive, stock and distribute certain Government publications. All income collected by such "consigned agents" is payable to the Superintendent of Documents. Consigned agents generally absorb the internal handling costs of distributing the documents. Such distribution activity is not "full cost recovery."

Under a third system, the Superintendent of Documents provides reimburseable mailing and mailing list services for agencies in order to meet specific by-law distribution requirements or distribution deemed desirable by any agency. (The agency reimburses GPO for cost of services rendered). Usually the Superintendent establishes automated systems that provide for changes, additions and deletions to mailing lists. In addition to these three systems, agencies may still choose to distribute free to users, small amounts of publications.

User-fee systems established for planned distribution, rather than responding to occasional ad hoc requests, conflict with the Government's central Superintendent of Documents sales system. They can also make the same publication available at two different costs, and of necessity require the multitude of support mechanisms previously cited. Therefore, such agency-run user-fee systems are clearly wasteful and not in the best interests of the Government and the public as a whole. If an agency wishes to lower a price of a publication, it is free to subsidize that publication through the Superintendent of Documents sales program.

Accordingly, any agency considering establishment of publication user-fee systems after this date, must submit full and complete plans to the Joint Committee for approval. Further, any federal agency that proposes contracting out publications distribution services that are currently performed in-house, must secure the approval of the Joint Committee on Printing. In addition, any agency which currently has in operation an agency user-fee program to collect money for subscriptions to periodicals, or which is offering publication titles for a user fee and is printing copies in anticipation of filling a demand from this user-fee schedule, shall by November 1, 1982, file with the Joint Committee full and complete plans covering this operation, including an estimate of the proportion of direct and indirect costs that are recovered in providing this service.

In evaluating proposed user-fee plans and agency needs for distribution of publications, the Joint Committee will accord primary deference to existing Government Printing Office systems. However, agency programs or situations, that demonstrate specialized needs not appropriately serviced by existing GPO systems will be given due consideration. Any questions in this regard should be directed to the Joint Committee on Printing.

Sincerely,

Charles McC. Mathias, Jr.
Chairman

Letter From Claude Gifford

November 1, 1982

Honorable Charles McC. Mathias, Jr.
Chairman
Joint Committee on Printing
Washington, DC 20510

Dear Mr. Chairman:

The enclosed material is submitted in response to your October 1 memorandum requesting that agencies file by November 1 with the Joint Committee their plans covering existing cost recovery programs.

The two reports represent the activities of the Agricultural Marketing Service and the Statistical Reporting Service. A third USDA agency, the Foreign Agricultural Service, has not yet provided us their report. We will forward it to you as soon as we receive it.

Sincerely,

Signed --
Claude W. Gifford

CLAUDE W. GIFFORD
Deputy Director
Office of Information

OFFICE OF THE SECRETARY AND DEPARTMENTAL ADMINISTRATION

SPACE ASSIGNMENTS

Senator Cochran. Mr. Franke, your notes that are submitted to the committee indicate a plan to consolidate and reduce space assigned to agencies in the Washington, D.C. complex. It is my understanding that this plan is being implemented this year. Will there be savings realized as a result of this reduction in space assignment?

Mr. Franke. There is anticipated savings, Mr. Chairman. I believe actions have taken place in recent months to indicate savings to the Department of Agriculture in excess of $1 million. There would be other savings anticipated. Of course, the difficulty lies in the Government-wide application. While we are reducing leased space in outlying areas, we are concentrating primarily on the Washington, D.C. area as much as possible to take advantage of our buildings. It is difficult, as I am sure the Chairman is aware, because it has almost a domino effect—one agency has to move and consolidate before another agency can move. But yes, there will be a dollar savings to the Department.

Senator Cochran. At our hearing earlier this week, we had testimony from the Economic Research Service about the fact that their lease has been terminated, that they are being relocated, and that they have to acquire additional space. I also know the Food and Nutrition Service is located in separate space somewhere in Alexandria, and I don't think they are all together. I know this does present a problem. You have those two agencies where something has to be done. Is there any likelihood that space will be found for ERS in the South Building, or what is going to be done about that?

Mr. Franke. I understood as late as last evening that there are additional discussions being held with regard to ERS. We will certainly discuss that. I don't know if it is timely. At this point, we have made an attempt to consolidate agencies as much as possible into the South Building and North Building. I don't know the precise answer to that. I will certainly keep the Chairman aware and advised. The proposal is to maintain as many agencies as possible within the South and North Buildings. The difficulty with ERS is that one of their requirements is to stay very near the Secretary's office, within walking distance, as I understand it. We are working diligently with the GSA and agencies in the area. It is difficult. We have 33 agencies and staff offices. And again, to move one agency in somewhere necessitates another agency moving somewhere else. Our staff has done an excellent job of working directly with the agencies in attempting to satisfy as much as possible.

ADVISORY COMMITTEES

Senator Cochran. In your statement, there is a reference to the 41 advisory committees.

Mr. Franke. Correct.

Senator Cochran. Some are established by statute; others are not. You set forth in your statement the total amount of money that is required to pay the expenses and the cost of maintaining those advisory committees.

Mr. FRANKE. There is a projected amount of $1,398,000. That is the same amount appropriated in fiscal year 1983. This affects 41 committees. There are 40 other committees under a different appropriation act in the Forest Service. We seem to think that dollar figure could perhaps be reduced.

Senator COCHRAN. How much of that is for staff and how much of that is for expenses of the committee members?

Mr. FRANKE. I don't have that right now. We can get that for you. As I recall, some of the committee breakdowns are varying degrees of staff activities, and it would depend on the committee. But we would be more than pleased to get a breakdown for you.

[The information follows:]

COMPARISON OF STAFF VERSUS COMMITTEE MEMBER EXPENSES

Approximately 51 percent of advisory committee expenses are for departmental staff support, 42 percent are for travel of both committee members and the supporting staff, and the remaining 7 percent is for miscellaneous expenses such as report preparation and rental of facilities for committee meetings.

FILING REPORTS

Senator COCHRAN. Do they all file reports?

Mr. FRANKE. As nearly as I understand, most of their activity reports are filed with their particular agency office. I am sure an attempt is made to promote each agency's response.

Senator COCHRAN. I wonder if anybody reads those reports.

Mr. FRANKE. I have asked myself the same question, Mr. Chairman.

Senator COCHRAN. I know you have to maintain financial support for those required by statute; no question about that. Who decides how many advisory committees there are? There are some 15 or 17, I understand, established by statute. That leaves about 25 or so.

Mr. FRANKE. There are some, Mr. Chairman, that are permissible under the statute. Others are created in the Department. But in the last 5 or 6 months, to my knowledge, there has been an intensive discussion of the committee structure. There are some committees that, perhaps, don't really serve a valid purpose and reason for the office they advise. But they do require some legislative discussions, and we will be doing that during the coming year. We are in the process now. Other committees are valid and necessary, but we are discussing ways in which their cost could be cut. Some committees are very, very difficult to consolidate, because they are in intensive research or technical activity. It is often difficult to consider all the committees under one guide. Each one has to be addressed separately. But a very intensive review of committee activity, structure, and expenditure is underway in the Department presently. We hope we can even cut costs to make the committees more effective.

TRANSFER OF THE ADMINISTRATIVE LAW JUDGES AND JUDICIAL OFFICER

Senator COCHRAN. What is the rationale behind the transfer of the Office of Administrative Law Judges and the Judicial Officer from the account of Office of the Secretary to Departmental Administration?

Mr. FRANKE. The Office of the Administrative Law Judges is included under the regulatory hearings and decisions activity, which is a nonpolicy continuing staff function. It seemed more appropriate to have the budget for this function in the Departmental Administration account rather than the Office of the Secretary. That was done last year, as I understand it.

MERIT PAY

Senator COCHRAN. What has been the success of the merit pay system for supervisors and managers that was implemented last year? Have there been many USDA employees who have received a merit pay bonus under that system?

Mr. FRANKE. I don't have the precise number. I will get it for you. Certainly, one of the difficulties philosophically in addressing and implementing any merit pay system is the appraisal system that is used to determine who gets merit pay. It is very difficult to say any system is totally satisfactory. The best response I receive from our personnel specialists and other departments is we tended to address the success. Now, everyone isn't happy with it. The payouts aren't large enough for some folks; some people are saying it isn't doing what it was intended to do. The system is there. About all I can say, Mr. Chairman, is we are working with it as best we can. No, not everyone is satisfied with it, but I think the key to it is readdressing our performance appraisal system so that truly meritorious people receive merit pay.

[The information follows:]

MERIT PAY SYSTEM

Approximately 90 percent of USDA GS-13, 14, and 15 employees are under the merit pay system. Merit increases were received by 9,577 employees in October 1981 and by 9,473 employees in October 1982. In addition, cash awards were granted to 92 employees in 1981 and 578 employees in 1982 under the merit pay system.

ST. LOUIS COMPUTER CENTER

Senator COCHRAN. I notice that the St. Louis Computer Center has been closed or is being closed. The Kansas City Center is assuming the workload that was assigned to the St. Louis area. Have there been any costs associated with this transfer activity to Kansas City?

Mr. FRANKE. Yes; I am certain there are going to be costs associated with that, and we can get a precise breakdown. The transfer from St. Louis to Kansas City probably won't be accomplished until the first or second quarter of 1984. The reason for that is to make sure there is a backup system in place. We are well into the conversion of the systems. I understand there have been some delays in the past. We have been meeting with Mr. Naylor to assure that similar delays will not occur in the future. We are very, very hopeful; in fact, we have given commitment for that transfer to take place by the first or second quarter of

1984. There will be a need to continue some element in the St. Louis computer operation to make sure systems are working. We have some power problems in Kansas City. We are working very closely with GSA, with our own information resource technicians, and with Farmers Home to resolve the problems.

[The information follows:]

COST OF CLOSING THE ST. LOUIS COMPUTER CENTER

The administrative cost of closing the St. Louis Computer Center is approximately $12,500. This includes $12,000 for the transfer of two people from St. Louis to Kansas City, and $500 for shipment of FmHA data tapes.

IMPROVING MANAGEMENT AND ADMINISTRATIVE SYSTEMS

Senator COCHRAN. We had a lot of complaints a couple years ago about checks being delayed and snafus occurring in St. Louis, or somebody at least blaming it on St. Louis. Whether that was the source of the problem or not, I don't know, but every farmer in the country who had applied for an FmHA loan found the check was coming from St. Louis or was tied up in St. Louis. I haven't heard anything this year. It may be too early in the loan processing season for those complaints to start coming in. What is the situation with backlogs or is it working more smoothly right now.

Mr. FRANKE. There are service files in the St. Louis office of Farmers Home. But no, the difficulty you mentioned hasn't recurred. Some of the manual systems have been upgraded quite a bit. It is better than it was. When automation takes place, it should make some changes and improve it even more. But the systems we are into now are our cash management system and our debt collection system. There is an intensive drive to speed up many of the management and administrative systems to bring them up to the technology of the eighties which is going to improve the system tremendously. The benefit to Government is less interest costs and increased efficiency, both in the cash management and debt collection area.

SUBMITTED QUESTIONS

Senator COCHRAN. Well, thank you very much for your presentation. We may have some additional questions. If we do, we will submit them to you in writing and ask you to respond to them. Thank you for being here and for cooperating with the committee. We appreciate that.

[The following questions were not asked at the hearing but were submitted to the Office of the Secretary and Departmental Administration for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SPACE PLAN

Question: Your notes indicate a plan to consolidate and reduce space assigned to agencies in the Washington, D.C. complex. It is my understanding that this plan is being implemented this fiscal year. For the record please outline your space plan and indicate the potential savings associated with each component.

Answer: The Department Space Plan that we have developed addresses several longstanding problems encountered by our agencies throughout the Washington Metropolitan area. Many of our agencies have been fragmented into several different buildings throughout the area and often occupy space in multiple, separated locations within a building. To further exacerbate the situation, individual agency space utilization rates varied from just over 100 square feet per person to over 200 square feet per person. The plan we developed has five major objectives:

a. Reduce space costs.
b. Reduce agency fragmentation.
c. Consolidate agencies into contiguous space assignments to the maximum extent practical.
d. Establish a uniform agency space allocation policy of 135-140 square feet per person.
e. Make maximum use of Government-owned space.

The plan we are now implementing meets these objectives. The following table indicates the planned space reductions and savings by building in the Washington, D.C. area:

Location	Type[1/]	Building	Proposed Sq. Ft. Reductions	Annual SLUC Savings (FY 82 Rates)
DC	O	Auditors So.	11,900	$76,700
MD	L	Matland	46,000	419,100
	L	Presidential	30,000	354,600
VA	L	Pomponio	5,400	51,900
	L	Commonwealth	15,500	146,300
	L	Skyline III	14,000	191,900
		Total	122,800	$1,240,500

1/ O = Government owned
L = Government leased

The $1.2 million annual savings will accrue not only to USDA through reduced SLUC reimbursements to GSA, but will also result in actual dollar savings to the Federal Government through reduced lease payments to commercial lessors.

In addition to these measurable savings, other benefits of the plan will result in cost savings. Consolidation of agencies into contiguous space assignments will reduce travel time and transportation costs from location to location. Support activities such as mail rooms, copier stations, conference rooms, etc., will no longer be duplicated at each location. Uniform space assignment criteria will avoid "favoring" one agency over another. Contiguous space assignments will allow units within an agency to expand and contract without impacting another agency's space, thus reducing future space reassignment costs. The plan was developed based upon existing space assignments in order to keep moving costs to a minimum. Fixed facilities such as labs, ADP areas, libraries, etc., were not relocated in order to avoid expensive alterations. Agencies were exhorted to keep alteration costs to a minimum. Double moves of organizational units were kept to an absolute mimimum.

Question: What other agencies aside from Food and Nutrition Service are located outside the main Agricultural complex? Will any of these agencies be relocated? If so, which ones?

Answer: The following table indicates the current and proposed locations for portions of those agencies (in addition to FNS) currently located outside the main complex.

Agency	Current Location	Proposed Location
SCS	Matland Building, Glendale, MD	*South Building, *Cotton Annex
APHIS	Presidential, FCB Hyattsville, MD	Federal Center Bldg.(FCB) Hyattsville, MD
OIG-RO	FCB Hyattsville, MD	FCB
FSIS	Presidential Bldg. Hyattsville, MD	*South Building, *Cotton Annex
FmHA	Presidential Bldg.	*South Building
HNIS	Presidential, FCB	FCB
OICD	FCB, Pomponio Plaza	*Auditors Bldg.
FS	Commonwealth Bldg. RP-D, RP-E Rosslyn, VA	RP-D, RP-E
OGPA	Commonwealth Bldg.	*Auditors West Bldg.
CSRS	Commonwealth Bldg.	*Auditors West Bldg.
AMS	BARC, Beltsville, MD Skyline III Falls Chruch, VA	*South Building

*Inside the D.C. complex.

FOOD AND NUTRITION SERVICE SITE

Question: Is the FNS site (Alexandria) working satisfactorily? I have heard numerous complaints about the inconvenience of the location, low staff morale, etc. Would you care to comment?

Answer: The new FNS Alexandria location (Park Center) seems to be working out satisfactorily. The willingness of the Washington Metropolitan Area Transit Authority to reroute and increase the frequency of the bus service to the new location, coupled with the availability of carpool parking space, has accommodated the large majority of the initial complaints. There is also in operation an 11-minute FNS shuttle trip which runs hourly and provides easy access between the Alexandria Park Center location and the downtown complex. The new Park Center location offers a convenient Health Unit, USDA Credit Union, and a carry-out sandwich shop.

ECONOMIC RESEARCH SERVICE RELOCATION

Question: The Economic Research Service (ERS) testified earlier this week. At that time, I learned they are having to relocate. They are hoping to be able to obtain space in the South Building in order to be near the security lock-up facility. What is the likelihood of their being able to have space in the South Building?

Answer: The Washington Space Plan is scheduled for completion by November 1983. Accommodating ERS in the South Building would require moving two or more agencies to new locations. ERS requires the equivalent of one entire floor of the South Building. To provide an entire floor of the South Building for ERS would require a completely new plan. We are committed to the present plan since many of the moves have already been completed. There is no likelihood of ERS having space in the South Building in the near future.

ERS has been consolidated and has occupied space at 500 12th Street for over 10 years. They can function physically separated and apart from the remainder of the agencies. GSA is obligated to find ERS acceptable replacement space within the delineated area defined by ERS. Relocating two or more agencies out of the complex to the new location and realigning the remaining agencies in the South Building 6-8 months after completing the Washington Space Plan in order to accommodate ERS would be expensive and contrary to one of the major precepts of the plan--to consolidate as many agencies as practical and prudent.

Based upon the least negative impacts on the overall operation of the Department, we expect that ERS will relocate to an acceptable new location within the boundaries of the delineated area of consideration. Any other alternative will have more negative impacts and be far more costly to the Government.

LAND DISPOSAL

Question: What efforts are being made to sell the 486 acres of USDA-owned land that you have identified?

Answer: The Department of Agriculture does not have the authority to sell the 486 acres of land identified for disposal. Approximately 469 acres have been reported excess to the General Services Administration (GSA), who has authority to sell or transfer the land. Within the next 60 days, we expect to report the additional 17 acres to GSA for disposal. To date, GSA has accepted a bid of $6,100 on only one tract comprising less than one acre.

STANDARD LEVEL USER CHARGES (SLUC)

The amount we provide in the Appropriations bill for SLUC is only partial funding for the Department to pay the General Services Administration appropriated $56,377,000 for fiscal year 1983.

Question: In addition to that amount, how much SLUC costs were paid from trust funds, the Working Capital Fund, and other non-appropriated funds?

Answer: In fiscal year 1983 the Department Agencies reported a total of $10,994,000 that would be used for additional SLUC costs from other sources. The distribution of the these accounts are:

Working Capital Fund	$ 4,325,000
Agency Reimbursements	3,232,000
Agency Trust Funds	1,432,000
Other Non-appropriated accounts	2,005,000
Total	$10,994,000

Question: You are requesting $69,402,000 for fiscal year 1984. Please indicate the additional amounts that will be needed from the other sources.

Answer: In fiscal year 1984 the Department Agencies reported a total of $9,460,000 needed to pay additional SLUC costs from other sources. The distribution of these accounts are:

Working Capital Fund	$ 3,696,000
Agency Reimbursements	2,887,000
Agency Trust Funds	1,981,000
Other Non-appropriated accounts	896,000
Total	$ 9,460,000

Question: Is there any way these charges could be reduced in the future?

Answer: The SLUC rate is based on the appraised fair annual rental of property occupied. This rate is updated annually based on the changing real estate markets. The rates could be held in place if GSA would give agencies the benefit of long-term tenancy as happens in the commercial market. Under the present arrangement, our only means of reducing costs imposed by GSA is to ensure that the assignment is correct by both amount and type of space. Additionally, the charges could be reduced by reducing the amount of space occupied.

ADVISORY COMMITTEES

Question: You said in your statement that of the 41 Advisory Committees, 15 Committees are established by statutes. Your notes state 17 are. Please explain this discrepancy.

Answer: The information in the explanatory notes is incorrect. My statement referred to the latest data available at the time of my testimony. Specifically, the most current estimate is that there will be forty non-Forest Service USDA committees in fiscal year 1984. Fifteen of these committees are established by Statute and the remaining twenty five are enacted by the Department either independently or upon the recommendation of Congress.

Question: Do each of the 41 committees compile an annual report?

Answer: Each committee prepares an annual report which is sent to GSA and published in the "Annual Report of the President on Federal Advisory Committees". The report is prepared on a calendar year basis and generally published each March. Beginning in October 1983, the report will be prepared on a fiscal year period.

Question: How are these reports disseminated?

Answer: An originial and two copies of the reports are sent to the GSA. GSA forwards the original to the OMB where it is reviewed prior to submission to the Congress. In addition, one copy is sent to the Library of Congress.

Question: Who decides if and when a committee should be continued or discontinued?

Answer: If a committee has been established by Departmental action, then a program Assistant Secretary can terminate the committee when it is determined that its function has been completed. If it is decided to continue a Departmentally established committee, then the Assistant Secretary for Administration submits a request to GSA for approval. This process takes place on a biennial basis. If a committee has been established by statute, then the termination date is generally stated in the law. If the Department wishes to continue a statutory committee after it has terminated, then it must be established as a Departmental committee and approved by the GSA. If no termination date is stated in the statue, then it is automatically rechartered every two years. If the Department determines that a committee established by statute is no longer needed then legislation is prepared and forwarded to OMB, and then transmitted to Congress. Congressional authorization is thus required to abolish a committee established by statute.

Question: Personnel compensation utilizes approximately one-half of the budget for advisory committees. What type of staff is associated with this account?

Answer: Personnel compensation is utilized to provide both professional and clerical Departmental support to advisory committees. In addition, in a single instance, an honorarium is provided to committee members for their participation in committee activities.

MINORITY AFFAIRS

Question: There has been quite a bit of news lately about a controversial department memorandum regarding minority affairs. Specicically, it was concerned with proposed changes in the Department's civil rights regulations and minority hiring practices.

Even though the author of the memo is no longer with USDA, are there, in fact, any changes being proposed?

Answer: The Department of Agriculture will continue to comply with all existing Laws and Regulations as they pertain to Civil Rights.

The Acting Director of the Office of Minority Affairs met with officials at the Equal Employment Opportunity Commission and received tentative approval for her recommended plan of action to bring the Department into full compliance for this fiscal year as it relates to the Affirmative Action Plan. The Acting Director will be meeting with OPM shortly to obtain approval on a plan to bring the Department into compliance on Federal Equal Opportunity Recruitment Plan.

MEMORANDUM

Question: Will you please provide a copy of the memorandum which is in question?

Answer: As you have previously noted, the author of the memorandum in question is no longer employed with the Department. However, a copy of the memorandum is provided, also a copy of the response from Mr. John Franke, who was the Deputy Assistant Secretary for Administration at the time of the memorandum.

(The information follows:)

DECISION MEMORANDUM FROM ISIDORO RODRIGUEZ

CONFIDENTIAL

08 FEB 1983

DECISION MEMORANDUM

SUBJECT: Consideration of Policy Direction of the Department's Draft Comprehensive Civil Rights Regulations

TO: John R. Block
Secretary of Agriculture

THRU: Raymond D. Lett
Executive Assistant to the
Secretary

Jim Handley
Special Assistant the Secretary

John Franke
Deputy Assistant Secretary
for Administration

Summary

New regulations are being drafted in the Department which reflect the Administration's position on changing civil rights policy. Since early Spring 1982, OMA has been in discussions with the Department of Justice to insure that USDA's new regulations are in step with New Federalism, deregulation, cost-effectiveness, non-quotas, and decentralization. Thus, the issue confronting the Secretary at this juncture is whether to proceed in this new direction which will implement the Administration's policies throughout the Department, and ultimately, throughout the Federal Government.

The timing is critical in that the Department is seen at this time as the lead Agency in accomplishing this mission. We are receiving support and guidance from the Department of Justice, and are in a position to have a significant impact on the entire Federal Government by moving forward to finalize the proposed regulations.

The beneficial impact of revising the Department's civil rights regulations in accord with administration policy raise obvious political issues which must be discussed, understood and accepted at the highest policy level within the Department.

Isidoro Rodriguez

ISIDORO RODRIGUEZ
Director

Detail Analysis

The Office of Minority Affairs (OMA) is at a critical point in redrafting the Department's comprehensive civil rights regulations. The first draft regulations will be completed within the month of February and our policy direction must be made clear prior to their release. Consequently, there is a need to brief the Secretary and obtain a decision.

Background

- The Civil Rights Act of 1964, including Title VI (program delivery) and Title VII (employment), was enacted under the Commerce Clause of the Constitution. It is based on the same premise as all other Departmental legislative programs.
- Most of the current regulations directing civil rights throughout the Government, and in particular those within the Department, were drafted over thirteen years ago; therefore, they have not kept pace with the massive political and sociological changes that have occurred over the same time period nor do they reflect the Reagan Administration's concept of "New Federalism". The regulations are extremely lengthy, complicated, and are based on such concepts as underrepresentation, quotas, and goals which this Administration does not espouse.
- In 1981, the Reagan Administration came into office with the objective of carefully managing the Federal Government in a fashion that is at variance with the practices of the past forty years, i.e. decentralization, cost-effective operation, and greater local autonomy.
- Civil Rights at present has no clear policy direction to bring it in line with the Administration's policies; therefore, massive expenditures on civil rights, which are in excess of two billion dollars Government-wide (and twenty million dollars for the Department) are still based on past guidelines which are contrary to the Administration's direction.
- Over the past eighteen years since passage of the Civil Rights Act of 1964, there has been a hardening of ethnic lines, creating divisivenes, and a turning away from a single National American identity.

Discussion

- Regulations, the implementing interpretations of a statute, are the key to operating administrative functions within the Federal Government. It was determined in the early Spring of 1982 that the Department would take the lead in writing comprehensive regulations which incorporate the Administration's policies, including, but not limited to:

- removal of quotas, guidelines and underrepresentation as related to ethnic preference in hiring and,
- simplification enforcement and monitoring of program delivery under Title VI, as well as equal employment opportunity under Title VII.

The rationale for the Department taking the lead, is that USDA is second in size only to the Department of Defense, and more importantly, it deals almost exclusively with domestic economic concerns, as well as agri-economics in the international sector. For these reasons, policy change in the Department would have greater impact and would be less politically criticized than a policy change in any department dealing strictly with social programs. Once the Department has issued its regulations, the Department of Justice will use them as a benchmark for other agencies within the Executive Branch.

- Regulations for the Department have been redrafted with two major guidelines:
  - In accord with the Paperwork Reduction Act and the Administration's commitment to reduce the burden placed on program recipients by the Federal Government, the redraft will reduce the amount of regulations by putting them in a short, concise and easily understood format.
  - In accord with the Department of Justice Civil Rights Division's policy direction, under the leadership of Assistant Attorney General, William Bradford Reynolds, Title VII regulations will be purged of any reverse-discrimination aspects (i.e., quotas, guidelines and underrepresentation) and complaint processing will be less costly and less time consuming. (Currently it takes the Federal Government $12,000 and 500 days to handle an EEO discrimination complaint, compared with $500 and 40 days in the corporate sector).
- The essential legal theory driving the new policy direction is a strict constructionalist interpretation of the Constitution and civil rights law.
- The Federal Government, by the very nature of the Equal Protection Clause of the Fifth Amendment, is prohibited from creating a preferential employment system based on race. The Reagan Administration has adopted this as one of its essential civil rights policies.
- Political analysis supporting this policy direction is based on a number of realities:
  - The Republican Party as a whole, and in particular the Reagan Administration, has not been supported by those ethnic/women's groups which have financially and politically profited by past civil rights policies, i.e., Women's Week, Black History Month, Hispanic Week and related special emphasis conferences.

- Such groups, which have received a great deal of financial and political benefit from the above mentioned cosmetic civil rights political policies, have made it clear in the 1980 election, as well as in recent statements, that they do not want to change the system to improve civil rights enforcement if it means jeopardizing their individual financial and political gains.

- Voting records show that 95% of the Black population who voted (only 25% of the actual Black population voted) did not support the President. Within the Hispanic community, in excess of 60% of those who voted (again, only 25% of the Hispanic population voted) did not support the President.

- It is unlikely that the Republican Party will impact these special emphasis groups which have traditionally been courted by the Democratic Party.

- 75% of the minority population has disenfranchised itself, and it is perceived that it can be reached by new policy initiatives which administer the law in a racially neutral way.

- Nonethnic groups which have not received special benefits are making it clear in a number of ways that they are tired of ethnic favoritism. As William Bradford Reynolds, Assistant Attorney General, has stated, "one cannot cure discrimination by discriminating". Thus, the Department of Justice has filed actions against reverse discrimination in both the Fifth District Court and the Supreme Court of the United States.

- In recent meetings, Agency Administrators throughout the Department have shown strong support for the Department's new civil rights direction. Additional support has been voiced from officials in field offices in response to speeches given across the country.

- Over the past ten years there have been over thirty Secretary Memoranda regarding civil rights which has caused confusion and inconsistent direction.

Conclusion

The Secretary and the Department would obtain a great deal of positive attention by taking the leadership in civil rights. The advantages are that by forcing a discussion of the issues an opportunity is presented to forcefully present and articulate the Administrations policy of New Federalism (de-centralization) and a paralled strategy of civil rights which will benefit all Americans.

Recommendations

- That the Secretary support the redrafting of the comprehensive regulations to conform with current Departmental needs, and that policy be directed to incorporate the Administrations' policies in these new regulations.

- That the Secretary accept the leadership role in the drafting of these regulations, and upon their completion, that they be submitted to the Cabinet as precedent for an Administration position paper on Civil Rights to address critics of the President's program.

Isidoro Rodriguez

ISIDORO RODRIGUEZ
Director

MEMORANDUM FROM JOHN J. FRANKE, JR.

February 15, 1983

TO: ISIDORO RODRIGUEZ, DIRECTOR
OFFICE OF MINORITY AFFAIRS

RE: CIVIL RIGHTS POLICY

This is in reference to your memo dated February 8, 1983, regarding policy dialogue. After carefully reviewing your memo, I find it appropriate that I respond in writing to set forth the posture of the Department concerning EEO/civil rights.

The United States Department of Agriculture fully supports the civil rights laws, regulations and Presidential programs regarding the same. In keeping with this policy, it is the mission of the Department to implement results oriented programs. These programs must ensure equality in employment opportunities for employees and applicants, recipients of federal financial assistance, and in the delivery of goods and services.

In view of this, your role as principal advisor to the Department on EEO/civil rights matters is to develop policy and programs in compliance with current EEO laws, policies, regulations issued by the lead agencies (Justice, EEOC, OPM, Department of Education). I would appreciate your acknowledgment and any response you feel appropriate.

JOHN J. FRANKE, JR.
Deputy Assistant Secretary
for Administration

EMPLOYMENT STATISTICS

Question: Would you please provide the subcommittee with information indicating numbers and percentages of women and minorities in USDA?

Answer: The following table reflects number of women and minorities in USDA in FY 1982. (Full time permanent)

Total Number of Women-------------------------27,147 (30.65%)
Total Number of Minorities--------------------11,514 (13.0%)

EQUAL EMPLOYMENT OPPORTUNITY

Question: You mentioned in your statement a requested decrease of $200,000 for the Equal Employment Opportunity Complaints function.

Will you please explain why you are proposing a new funding mechanism for this function?

Answer: The change to reimburse funding instead of direct funding within the Department of Agriculture for the processing of EEO Complaints was made to free criminal investigators in OIG for their primary job, and to improve accountability of program managers complaints. Previously, there was little incentive to review complaints to identify possible problem resolutions. With this funding mechanism, we have increased Agency management accountability and incentives for problem resolutions.

Question: How many Equal Employment Opportunity Complaints did USDA have in fiscal year 1981 and 1982?

Answer: USDA had 173 EEO Complaints for FY 82 and 206 for FY '81.

Question: Have there been problems in the past concerning agencies' reluctance to resolve the complaints or issues?

Answer: I would not say that agencies in the Department have been reluctant to resolve complaint issues since the Department has a long history of concern for human rights and service to equal opportunity principles. However, we have recently begun taking a hard look at ways in which we might more efficiently resolve problems and issues raised in EEO complaints. This is because the EEO complaint caseload has traditionally been much heavier than existing staffing levels could effectively accommodate.

PRINTING AND REPRODUCTION

You are requesting a substantial increase in the object classification "Printing and Reproduction" for fiscal year 1984.

Question: Please explain what this increase of $109,000 over fiscal year 1983 will be used for.

Answer: Because of having to absorb the cost of the Office of the Assistant Secretary of Governmental and Public Affairs, we have had to defer some printing and reproductions needs for fiscal years 1982 and 1983. In fact, the fiscal year 1981 obligation totalled $214,940. Our on-going printing and reproduction needs for fiscal year 1983 are actually estimated to be $213,000. However, in order to cover the salary costs, we have had to allocate only $140,000 for that purpose. The fiscal year 1984 budget reflects resuming our normal operation in that area.

ASSISTANT SECRETARY FOR GOVERNMENTAL AND PUBLIC AFFAIRS

Question: You are requesting an increase of $297,000 for the Assistant Secretary for Governmental and Public Affairs.

Why were funds for this office never requested before?

Answer: Over the past several years, we have been able to absorb the cost of this office through savings from the other offices. These savings resulted from unfilled vacancies, delay in filling vacancies, and deferring other cost (such as printing) wherever possible.

Question: Are the other Assistant Secretaries provided permanent funds?

Answer: Yes, the other Assistant Secretaries have permanent funding.

Question: Please provide for the record a table showing each Assistant Secretary, the amount provided each and the number of the members of each for fiscal year 1982, 1983 and projected for 1984.

Please provide the same information for the Secretary, Deputy Secretary and Under Secretaries.

Answer: The information follows.

Office of the Secretary

	Actual FY 1982		Estimated FY 1983		Projected FY 1984	
	Funds	FTE	Funds	FTE	Funds	FTE
The Immediate Office of the Secretary and Deputy	$1,932,000	28	$2,361,000	31	$2,387,000	31
Under Secretary for International Affairs	314,000	7	315,000	7	319,000	7
Under Secretary for Rural and Small Community Development	309,000	7	310,000	7	314,000	7
Assistant Secretary for Governmental and Public Affairs	5,000	2	7,000	3	a/ 297,000	3
Assistant Secretary for Administration	281,000	6	285,000	7	289,000	7
Assistant Secretary for for Economics	282,000	6	280,000	6	284,000	6
Assistant Secretary for Food and Consumer Affairs	293,000	7	296,000	8	300,000	8
Assistant Secretary for Market and Inspection Service	287,000	5	282,000	5	286,000	5
Assistant Secretary for Natural Resources and Environment	305,000	6	301,000	6	305,000	6
Assistant Secretary for Science and Education	- -	--	258,000	6	264,000	6
Total, Obligation Availability and Projected expenses	$4,008,000 a/	74	4,695,000	86	5,045,000	86

a/ This figure reflects the actual obligations for FY 1982. It differs from the Explanatory Notes because of an accounting error in the end-of-year official reports to Treasury. The budget must agree with these reports.

b/ This estimate represents an allocation for travel only. The other expenses will be paid from the savings from earned lapse of the other Under and Assistant Secretaries.

PERSONNEL OPERATIONS

Questions: Please explain why the Personnel Operations Division is no longer funded by the Working Capital Fund?

Answer: A Departmental Task Force reviewed all the activities funded through the Working Capital Fund and made recommendations as to which Operations Division provides services for employees financed through appropriations as well as for those financed through the Working Capital Fund. This division does not provide any services directly to the agencies using the services of the WCF activities. For these reasons The Task Force determined that it was not proper for this unit to be financed directly through the Working Capital Fund.

Question: What are the other activities that are no longer funded by the Working Capital Fund, but now are under Departmental Administration? What are the costs associated with each?

Answer: The information follows.

ACTIVITY	COST
Office of Emergency Preparedness	$ 96,364
OIRM Headquarters	$3,583,487
Imprest Fund Drivers Unit	234,000
Executive Services	171,000
Productivity and Evaluation Division	401,000
Budget Staff	224,000

OFFICE OF ENERGY

Question: Please explain the justification for transferring the Office of Energy from Departmental Administration to the Economic Research Service. What will be the impact as a result of this transfer?

Answer: The Office of Energy, established by Secretary's Memorandum 1020-4 dated December 24, 1981, has always reported to the Assistant Secretary for Economics. The budget, however, has been included as a line item in the Departmental Administration appropriation account.

The most recent transfer did not change the reporting lines for the Office of Energy. It merely moved the budget line item to the Economic Research Service appropriation account. Because the Office of Energy is a policy function and not an administrative function, it more properly belongs in the ERS budget.

REFINANCING PERSONNEL OPERATIONS

Question: It is my understanding that this year 25 percent of the cost of Personnel Operations Division is being transferred out of the Working Capital Fund to appropriated funding.

Please explain why you are requesting appropriated funds for this activity in fiscal year 1984.

Answer: The request to transfer 25 percent of the cost of the Personnel Operations Division from the Working Capital Fund to appropriated funding is based on the estimated portion of the total effort of the Personnel Operations Division devoted to providing services to the employees performing Departmental staff functions. The remaining 75 percent of their effort is devoted to providing services to the employees operating the various Working Capital Fund activities.

CLOSING OF ST. LOUIS COMPUTER CENTER

It is my understanding that the Kansas City Computer Center will assume the full workload of the St. Louis Center during fiscal year 1984.

Question: Can you advise the total cost of this move or transfer?

Answer: The costs of actual closing of operations in St. Louis and the move to Kansas City will be minimal. All employees except two have already been transferred to the FmHA from OIRM in order to simplify the closing. These transferred personnel (17) are computer operators still operating FmHA's current accounting system on the Burroughs 4890 computer. After the shutdown of the Burroughs equipment they will manage the remote batch equipment and scheduling functions of FmHA's remote operations.

Transfer of two personnel	$12,000
Shipment of FmHA data tapes	500
TOTAL	$12,500

Question: Have all the problems associated with the computers at the Kansas City Center been solved?

Answer: No, but most problems have been resolved. Currently, with the same equipment in place, service is more consistent while FmHA's conversion effort has been at its highest peak. The demand on the equipment is not affording an extremely good interactive response of batch turnaround, but these are not considered major deterents. We anticipate this situation will be alleviated by August 1983 when the competitively procured replacement equipment is installed. This will be soon enough to absorb FmHA's next production phase.

Question: Are backlogs still occurring in the processing of FmHA's loan payments, etc.?

Answer: No, the installation of the Burroughs 4890 has alleviated this problem. FmHA has executed two very smooth consecutive year-end closings and backlogs experienced prior to this equipment do not exist. In addition, a new discrepancy processing system is being implemented which will eliminate the backlog of documents which are pending research and correction.

MERIT PAY SYSTEM

A merit pay system for supervisors and managers was implemented in fiscal year 1982.

Question: How many disputes involving employees in merit pay did USDA have during the past year?

Answer: Twenty-nine employee grievances have been filed by merit pay employees concerning FY '82 performance ratings.

Question: What were the results?

Answer: Of the twenty-nine, nine are still under review, eleven resulted in no changes being made and nine were adjusted in the employees' favor.

OFFICE OF SMALL AND DISADVANTAGED BUSINESS UTILIZATION

The Office of Small and Disadvantaged Business Utilization directs its programs at small business, disadvantaged business, and women-owned businesses in "labor-surplus areas". In these times of high unemployment, I would imagine you could be pretty busy.

Question: How are such areas designated and who makes these designations?

Answer: Labor surplus areas (LSA) are designated by the Department of Labor. LSAs are classified on the basis of civil jusrisdictions, i.e., counties or county equivalents, as well as all cities with a population of at least 50,000 inhabitants. Under the Department of Labor's classification procedures, an area is classified as a LSA if the unemployment rate is a least 1.20 times the national unemployment rate during the previous two calendar years. The reference period used in classifying the current list of LSAs was January 1980 thru December 1981. The national average unemployment rate during this reference period was 7.5 percent. Thus were included on the annual listing if their average unemployment rate during the reference period was 9.0 percent or more. As a result of these classifications, there are 1,346 LSAs (effective as of March 1, 1983). The Department of Labor publishes a list of the LSAs in a document labeled "Area Trends in Employment and Unemployment". Questions concerning the labor surplus area classifications may be directed to: U.S. Department of Labor, Employment and Training Administration (TEEPA), 601 "D" Street, N.W., Washington, D.C. 20213, Telephone: (202) 376-6690.

The purpose of classifying LSAs is to locate the Federal government's procurement contracts in areas of high unemployment. Employers located in these areas are eligible for preference in bidding on Federal contracts. There is no special designation such as "women-owned businesses in labor surplus areas". However, a procurement may be set-aside for small businesses that agree to perform as a LSA concern. A firm performing as a LSA concern means that the costs incurred on account of manufacturing, production, or appropriate service in the labor surplus areas will exceed 50 percent of the contract price. The remainder of the costs may be incurred outside of the LSA.

SENIOR EXECUTIVE SERVICE (SES)

Question: How many SES vacancies did USDA have in fiscal year 1982 and in 1983 to date?

Answer: USDA had a total of 98 vacancies in fiscal year 1982, and a total of 100 vacancies in 1983, to date.

Question: How many SES slots were requested for fiscal year 1983 and 1984?

Answer: Total number of slots requested for fiscal year 1983 was 459. For fiscal year 1984, the Department requested that our current allocation of 395 slots be retained.

Question: How many slots did OPM (Office of Personnel Management) allocate to USDA?

Answer: The allocation granted is 395 slots by OPM to this Department for fiscal year 1983.

Question: Are you still having difficulty in attracting executives from outside government?

Answer: Yes, we are still experiencing difficulty in obtaining executives for government service.

Question: For what reasons?

Answer: The reasons are relocation costs, especially housing with high interest rates, and top salaries still not comparable to most of the private sector.

Question: Last year you provided the committee a listing of all SES personnel in USDA. Please update this list for the record.

Answer: (The information follows:)

SENIOR EXECUTIVE SERVICE

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
James C. Handley	Office of the Secretary	Special Assistant to the Secretary	2/25/81	Noncareer	General
Michael J. Masterson	Office of the Secretary	Staff Assistant to the Secretary	9/27/82	Noncareer	General
John J. Franke, Jr.	Office of the Secretary	Deputy Assistant Secretary for Administration	8/16/82	Noncareer	General
Raymond D. Lett	Office of the Secretary	Executive Assistant to the Secretary	1/26/81	Noncareer	General
Alan T. Tracy	Office of the Secretary	Deputy Under Secretary for International Affairs and Commodity Programs	4/12/82	Noncareer	General
Richard D. Siegel	Office of the Secretary	Deputy Assistant Secretary for Natural Resources and Environment	5/26/81	Noncareer	General
Douglas W. MacCleery	Office of the Secretary	Deputy Assistant Secretary for Natural Resources and Environment	8/3/81	Noncareer	General
John W. Bode	Office of the Secretary	Deputy Assistant Secretary for Food and Consumer Services	5/31/81	Noncareer	General
J. Dawson Ahalt	Office of the Secretary	Deputy Assistant Secretary for Economics	4/13/81	Career	General
John E. Ford	Office of the Secretary	Deputy Assistant Secretary for Marketing and Inspection Service	3/21/81	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
James H. Johnson	Office of the Secretary	Deputy Under Secretary for Small Community and Rural Development	1/6/83	Noncareer	General
Stephen B. Dewhurst	Office of Budget and Program Analysis	Director	7/13/79	Career	General
John Fedkiw	Office of Budget and Program Analysis	Associate Director for Policy Analysis, Resources Programs and Special Studies	12/28/80	Career	General
Lawrence Wachs	Office of Budget and Program Analysis	Associate Director for Budget, Legislation and Program Review	12/29/80	Career	General
Robert E. Sherman	Office of Budget and Program Analysis	Deputy Director, Budget, Legislation and Regulatory Systems	2/7/82	Career	General
Anthony J. Gabriel	Office of the Inspector General	Deputy Inspector General	11/15/81	Noncareer	General
Thomas J. Burke	Office of the Inspector General	Assistant Inspector Gneeral for Investigations	2/9/83	Career	Career Reserved
Robert F. Smith	Office of the Inspector General	Assistant Inspector General for Security and Special Operations	11/15/81	Career	Career Reserved
John E. Noakes	Office of the General Counsel	Deputy General Counsel	6/7/81	Noncareer	General
Richard L. Fowler	Office of the General Counsel	Associate General Counsel, Community Development and Natural Resources	8/24/80	Career	General
James F. Hinchman	Office of the General Counsel	Associate General Counsel, Production, Distribution and Assistance	8/24/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
James M. Kelly	Office of the General Counsel	Associate General Counsel, Legislation, Litigation, Research and Operations	8/24/80	Career	General
James V. Loughran	Office of the General Counsel	Assistant General Counsel, Community Development Division	8/24/80	Career	General
Clarence W. Brizee	Office of the General Counsel	Assistant General Counsel, Natural Resources Division	9/7/80	Career	General
Michael W. Kelly	Office of the General Counsel	Assistant General Counsel, Electric and Telephone Division	8/24/80	Career	General
Rosina B. Ducrest	Office of the General Counsel	Assistant General Counsel, Foreign Agriculture and Community Statilization Division	8/24/80	Career	General
Kenneth H. Vail	Office of the General Counsel	Assistant General Counsel, Packers and Stockyards	12/27/81	Career	General
John C. Chernauskas	Office of the General Counsel	Assistant General Counsel, Marketing Division	8/24/80	Career	General
Ronald D. Cipolla	Office of the General Counsel	Assistant General Counsel, Regulatory Division	9/24/80	Career	General
William J. Stokes	Office of the General Counsel	Assistant General Counsel, Research and Operations Division	8/24/80	Career	General
William J. Riley, Jr.	Office of Personnel	Director	7/4/82	Career	General
Dean K. Crowther	Office of Administrative Systems	Director	6/27/82	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Clyde McShan	Office of Administrative Systems	Director, National Finance	6/27/82	Career	General
John E. Carson	Office of Finance and Management	Director	6/27/82	Career	General
Larry Wilson, Jr.	Office of Finance and Management	Deputy Director	6/27/82	Career	General
Glenn R. Haney	Office of Information Resources Management	Director	8/8/82	Career	General
Robert V. Head	Office of Information Resources Management	Deputy Director	6/27/82	Career	General
Bruce R. Riggs	Office of Information Resources Management	Director, Washington Computer Center	8/8/82	Career	General
Isidoro Rodriguez	Office of Minority Affairs	Director	5/30/82	Noncareer	General
Frank Gearde, Jr.	Office of Operations	Director	6/27/82	Career	Career Reserved
James Frazier, Jr.	Office of Operations	Deputy Director for Personal Property, Mail and Reproduction	1/23/83	Career	General
Charles A. Bucy	Office of Operations	Deputy Director for Executive Services, Facilities and Procurement Management	1/9/83	Career	General
Merritt W. Sprague	Federal Crop Insurance Corporation	Manager	5/2/82	Noncareer	General
Robert H. Sindt	Federal Crop Insurance Corporation	Deputy Manager	7/12/82	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Dean W. Mitchell	Federal Crop Insurance Corporation	Director, Operations	5/24/82	Noncareer	General
Ivan E. Dull	Federal Crop Insurance Corporation	Deputy Director, Operations	6/17/82	Ltd. Term	General
Michael E. Brunner	Farmers Home Administration	Associate Administrator	1/10/82	Noncareer	General
Dwight O. Calhoun	Farmers Home Administration	Assistant Administrator, Community and Business Programs	11/14/82	Career	Career Reserved
Lorimer D. Elwell, Jr.	Farmers Home Administration	Assistant Administrator, Housing	11/14/82	Career	General
H. Allan Brock	Farmers Home Administration	Deputy Administrator, Farm and Family Programs	12/17/78	Career	General
Charles A. Jewel	Farmers Home Administration	Deputy Administrator, Financial and Administrative Operations	2/21/82	Career	Career Reserved
Clarence P. Squellati	Farmers Home Administration	Assistant Administrator, Accounting and Director, Finance Office	10/3/82	Career	Career Reserved
Neal Sox Johnson	Farmers Home Administration	Deputy Administrator for Program Operations	11/14/82	Noncareer	General
Clarence M. Gordy	Farmers Home Administration	Assistant Deputy Administrator for Program Operations	2/6/83	Career	General
Robert R. Stansberry	Farmers Home Administration	Assistant Deputy Administrator for Program Operations	2/6/83	Career	General
Willard L. Phillips	Office of Rural Development Policy	Director	7/11/82	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Jack Van Mark	Rural Electrification Administration	Deputy Administrator	1/12/82	Noncareer	General
John H. Arnesen	Rural Electrification Administration	Assistant Administrator,	7/13/79	Career	General
Joseph S. Zoller	Rural Electrification Administration	Assistant Administrator, Electric	4/2/79	Career	General
R. Max Peterson	Forest Service	Chief	7/13/79	Career	General
F. Dale Robertson	Forest Service	Associate Chief	6/27/82	Career	General
Jerome A. Miles	Forest Service	Deputy Chief, Administration	1/14/79	Career	Career Reserved
Wallace R. Otterson	Forest Service	Associate Deputy Chief for Administration	8/22/82	Career	Career Reserved
Leon H. Anderson	Forest Service	Director, Human Resource Programs	3/26/82	Career	General
Robert E. Buckman	Forest Service	Deputy Chief, Research	4/11/79	Career	General
Floyd B. Clark	Forest Service	Associate Deputy Chief for Research	10/19/80	Career	General
Keith R. Shea	Forest Service	Associate Deputy Chief for Research	2/10/80	Career	General
Ronald D. Lindmark	Forest Service	Director, Forest Environment Research Staff	1/24/82	Career	Career Reserved
Gearld W. Anderson	Forest Service	Director, Insects and Disease Research Staff	7/13/79	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Stanley L. Krugman	Forest Service	Director, Timber Management Research Staff	8/9/81	Career	Career Reserved
Ross S. Whaley	Forest Service	Director, Forest Economics Research Staff	8/27/78	Career	Career Reserved
John R. Erickson	Forest Service	Director, Forest Products and Engineering Research	5/4/80	Career	Career Reserved
Raymond M. Housley	Forset Service	Deputy Chief, National Forest System	1/15/81	Career	General
Gary E. Cargill	Forest Service	Associate Deputy Chief, National Forest System	1/25/81	Career	General
Junior B. Hilmon	Forest Service	Associate Deputy Chief, National Forest System	7/5/54	Career	General
Roy W. Feuchter	Forest Service	Director, Recreation and Management Staff	2/25/79	Career	Career Reserved
George M. Leonard	Forest Service	Director, Timber Management Staff	10/3/82	Career	Career Reserved
Robert H. Tracy, Jr.	Forest Service	Director, Watershed Management Staff	7/1/79	Career	Career Reserved
Howard E. Banta	Forest Service	Director, Minerals and Geology Staff	6/17/79	Career	Career Reserved
Dale A. Jones	Forest Service	Director, Wildlife Management Staff	6/17/79	Career	Career Reserved
Myles R. Howlett (Retires 2/28/83 - Sotero Muniz to replace)	Forest Service	Director, Engineering Staff	5/30/71	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Richard D. Hull	Forest Service	Director, Lands Staff	7/27/80	Career	Career Reserved
Charles R. Hartgraves	Forest Service	Director, Land Management Planning	11/6/77	Career	Career Reserved
John H. Ohman	Forest Service	Deputy Chief, State and Private Forestry	6/19/81	Career	General
Allen J. Schacht	Forest Service	Associate Deputy Chief for State and Private Forestry	11/1/81	Career	General
John A. Vance	Forest Service	Director, Area Planning and Development	2/24/80	Career	Career Reserved
Frederick A. Dorrell	Forest Service	Director, Cooperative Forestry Staff	8/1/76	Career	Career Reserved
James L. Stewart	Forest Service	Director, Forest Insect and Disease Management Staff	2/27/77	Career	Career Reserved
J. Lamar Beasley	Forest Service	Deputy Chief for Programs and Legislation	9/21/80	Career	General
Allan J. West	Forest Service	Associate Deputy Chief for Program and Legislation	11/28/82	Career	General
William Rice	Forest Service	Director, Program Development and Budget Staff	6/1/80	Career	General
Thomas Hamilton	Forest Service	Director, Resources Program and Assessment	3/23/80	Career	General
David E. Ketcham	Forest Service	Environmental Coordinator	6/17/79	Career	General
Charles T. Coston	Forest Service	Regional Forester, Region 1	7/13/79	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Craig W. Rupp	Forest Service	Regional Forester, Region 2	7/4/76	Career	General
Milo J. Hassell	Forest Service	Regional Forester, Region 3	8/1/76	Career	General
John S. Tixier	Forest Service	Regional Forester, Region 4	6/27/82	Career	General
Zane G. Smith, Jr.	Forest Service	Regional Forester, Region 5	8/27/78	Career	General
Jeff M. Sirmon	Forest Service	Regional Forester, Region 6	1/18/82	Career	General
John E. Alcock	Forest Service	Regional Forester, Region 8	6/27/82	Career	General
Steve Yurich	Forest Service	Regional Forester, Region 9	7/4/76	Career	General
John A. Sandor	Forest Service	Regional Forester, Region 10	3/13/76	Career	General
Denver P. Burns	Forest Service	Station Director, Northeastern Forest Experiment Station	12/27/81	Career	Career Reserved
Robert A. Hann	Forest Service	Station Director, North Central Experiment Station	7/13/79	Career	Career Reserved
Robert L. Ethington	Forest Service	Station Director, Pacific Northwest Forest and Range Experiment Station	10/21/79	Career	Career Reserved
Laurence E. Lassen	Forest Service	Station Director, Southern Forest Experiment Station	5/23/76	Career	Career Reserved
Eldon W. Ross	Forest Service	Station Director, Pacific Southeast Forest and Range Experiment Station		Career	Career Reserved
Robert Z. Callaham	Forest Service	Station Director, Pacific Southwest Forest and Range Experiment Station	10/24/76	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Roger R. Bay	Forest Service	Station Director, Intermountain Forest Range Experiment Station	4/28/74	Career	Career Reserved
Charles M. Loveless	Forest Service	Station Director, Rocky Mountain Forest Range Experiment Station	5/17/81	Career	Career Reserved
Thomas N. Schenarts	Forest Service	Director, Northeastern Area for State and Private Forestry	4/18/82	Career	Career Reserved
Robert L. Youngs	Forest Service	Director, Forest Products Laboratory	7/13/75	Career	Career Reserved
Peter C. Myers	Soil Conservation Service	Chief	4/5/82	Noncareer	General
David G. Unger	Soil Conservation Service	Associate Chief	12/30/79	Career	General
Graham T. Munkittrick	Soil Conservation Service	Assistant Chief - Northeast	12/12/82	Career	General
Galen S. Bridge	Soil Conservation Service	Assistant Chief - Northwest	5/4/80	Career	General
Edward E. Thomas	Soil Conservation Service	Assistant Chief - Southeast	5/4/80	Career	General
Thomas G. Rockenbaugh	Soil Conservation Service	Assistant Chief - Southwest	7/26/81	Career	General
Richard L. Duesterhaus	Soil Conservation Service	Assistant Chief - Midwest	7/11/82	Career	General
Robert G. Halstead	Soil Conservation Service	Deputy Chief for Administration	10/11/81	Career	Career Reserved
Jacqueline G. Sutton	Soil Conservation Service	Associate Deputy Chief for Administration	1/31/82	Career	Career Reserved
Cletus J. Gillman	Soil Conservation Service	Deputy Chief for State and Local Operations	5/4/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Jerome C. Hytry	Soil Conservation Service	Associate Deputy Chief for State and Local Operations	3/21/82	Career	General
Plater T. Campbell	Soil Conservation Service	Director, Conservation Planning and Application	10/14/82	Career	Career Reserved
Denver G. Burns	Soil Conservation Service	Director, Land Treatment Programs	9/7/80	Career	Career Reserved
Ralph J. McCracken	Soil Conservation Service	Deputy Chief for Natural Resources Assessments	1/18/81	Career	General
Gerald D. Seinwill	Soil Conservation Service	Associate Deputy Chief for Natural Resource Projects	12/6/81	Career	General
Edgar H. Nelson	Soil Conservation Service	Director, Basin and Area Planning	9/7/80	Career	Career Reserved
John W. Peterson	Soil Conservation Service	Director, Project Development and Maintenance	5/16/82	Career	Career Reserved
Paul M. Howard	Soil Conservation Service	Deputy Chief for Technology Development and Application	5/4/80	Career	General
Neil F. Bogner	Soil Conservation Service	Associate Deputy Chief for Technology Development and Application	2/22/81	Career	General
Thomas N. Shiflet	Soil Conservation Service	Director, Ecological Sciences	5/4/80	Career	Career Reserved
Buell M. Ferguson	Soil Conservation Service	Director, Engineering	10/4/81	Career	Career Reserved
Joseph W. Haas	Soil Conservation Service	Deputy Chief for Natural Resource Projects	5/4/80	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Klaus W. Flach	Soil Conservation Service	Associate Deputy Chief for Natural Resource Assessments	5/4/80	Career	General
Richard W. Arnold	Soil Conservation Service	Director, Soils	9/7/80	Career	Career Reserved
Kenneth L. Williams	Soil Conservation Service	Deputy Chief for Planning and Evaluation	5/4/80	Career	General
Samuel J. Corneluis	Food and Nutrition Service	Administrator	3/8/82	Noncareer	General
Robert E. Leard	Food and Nutrition Service	Associate Administrator	6/27/82	Noncareer	General
John H. Stokes, III	Food and Nutrition Service	Director, Policy, Planning and Evaluation	8/24/82	Noncareer	General
Joseph S. Bennett	Food and Nutrition Service	Deputy Administrator for Management	3/24/80	Career	Career Reserved
Raymond A. Pugh, Jr.	Food and Nutrition Service	Deputy Administrator for Financial Management	9/3/78	Career	Career Reserved
Andrew P. Hornsby, Jr.	Food and Nutrition Service	Regional Administrator, Mid-Atlantic Region	8/8/82	Career	General
David B. Alspach	Food and Nutrition Service	Regional Administrator, Southeast Region	9/15/76	Career	General
Monroe Woods	Food and Nutrition Service	Regional Administrator, Midwest Regional Office	7/13/79	Career	General
Gene Dickey	Food and Nutrition Service	Regional Administrator, Southwest Region	11/1/80	Career	General

AME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Billy W. Wood	Food and Nutrition Service	Regional Administrator, Mountain Plains Regional Office	7/13/79	Career	General
R. Hicks Elmore, Jr.	Food and Nutrition Service	Regional Administrator, Western Region	7/13/79	Career	General
Harold T. McLean	Food and Nutrition Service	Regional Administrator, Northeast Regional Office	7/13/79	Career	General
Virgil L. Conrad	Food and Nutrition Service	Deputy Administrator for Family Nutrition Programs	8/24/82	Career	General
eorge A. Braley	Food and Nutrition Service	Deputy Administrator for Special Nutrition Programs	10/3/82	Career	General
sther A. Winterfeldt	Human Nutrition Information Service	Administrator	3/9/82	Noncareer	General
andall E. Torgensen	Agricultural Cooperative Service	Administrator	11/16/80	Career	General
ern F. Highley	Agricultural Marketing Service	Administrator	6/1/82	Noncareer	General
Irving W. Thomas	Agricultural Marketing Service	Deputy Administrator, Management	9/28/75	Career	Career Reserved
illiam T. Manley	Agricultural Marketing Service	Deputy Administrator, Marketing Program Operations	4/1//76	Career	General
Edward T. Coughlin	Agricultural Marketing Service	Director, Dairy Division	6/27/82	Career	Career Reserved
Lioniel S. Edwards	Agricultural Marketing Service	Director, Tobacco Division	1/16/83	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Jesse D. Moore	Agricultural Marketing Service	Director, Cotton Division	12/14/75	Career	Career Reserved
James E. Springfield	Agricultural Marketing Service	Director, Warehouse Division	9/11/79	Career	Career Reserved
Charles R. Brader	Agricultural Marketing Service	Director, Fruit and Vegetable Division	6/3/79	Career	Career Reserved
Thomas H. Porter	Agricultural Marketing Service	Director, Livestock, Poultry, Grain and Seed Division	7/13/79	Career	Career Reserved
H. Connor Kennett	Agricultural Marketing Service	Director, Poultry Division	10/1/81	Career	Career Reserved
Eddie Kimbrell	Agricultural Marketing Service	Deputy Administrator, Marketing Program Operations	9/24/78	Career	General
James O. Lee, Jr.	Animal and Plant Health Inspection Service	Associate Administrator	3/1/80	Career	General
Larry B. Slagle	Animal and Plant Health Inspection Service	Deputy Administrator for Management	6/27/82	Career	Career Reserved
Robert L. Buchanan, Jr.	Animal and Plant Health Inspection Service	Assistant Deputy Administrator for Management	10/3/82	Career	Career Reserved
Harvey L. Ford	Animal and Plant Health Inspection Service	Deputy Administrator, Plant Protection and Quarantine	3/1/80	Career	General
William F. Helms	Animal and Plant Health Inspection Service	Associate Deputy Administrator, Plant Protection and Quarantine	2/1/81	Career	General
Robert L. Williamson	Animal and Plant Health Inspection Service	Director, National Program Planning Staffs	4/18/82	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
David S. Campbell	Animal and Plant Health Inspection Service	Assistant Deputy Administrator for National and Emergency Programs, Plant Protection and Quarantine	2/1/81	Career	Career Reserved
Charles D. Nigro	Animal and Plant Health Inspection Service	Director, Northeastern Region, Plant Protection and Quarantine	8/10/80	Career	Career Reserved
Donald F. Husnik	Animal and Plant Health Inspection Service	Director, Southeastern Region, Plant Protection and Quarantine	2/22/81	Career	Career Reserved
John T. Atwell	Animal and Plant Health Inspection Service	Deputy Administrator, Veterinary Services	2/18/81	Career	General
Kenneth R. Hook	Animal and Plant Health Inspection Service	Associate Deputy Administrator, Veterinary Services	4/5/81	Career	General
Saul T. Wilson	Animal and Plant Health Inspection Service	Director, National Program Planning Staff, Veterinary Services	1/23/83	Career	Career Reserved
Alfred Strating	Animal and Plant Health Inspection Service	Director, National Veterinary Services	5/16/82	Career	Career Reserved
Norvan L. Meyer	Animal and Plant Health Inspection Service	Assistant Deputy Administrator, International Programs	9/16/73	Career	Career Reserved
Euclid Sharman	Animal and Plant Health Inspection Service	Assistant Deputy Administrator, Animal Health Programs, Veterinary Services	11/2/80	Career	Career Reserved
Gerald J. Fichtner	Animal and Plant Health Inspection Service	Director, Northern Region, Veterinary Services	11/28/82	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
John C. Jefferies	Animal and Plant Health Inspection Service.	Director, Southern Region Veterinary Services	11/16/80	Career	Career Reserved
Robert E. Reichard	Animal and Plant Health Inspection Service	Co.-Director, U.S. Mexico Screwworm Commission	12/12/82	Career	Career Reserved
David R. Galliart	Federal Grain Inspection Service	Deputy Administrator, Program Operations	1/29/78	Career	General
Leslie E. Malone	Federal Grain Inspection Service	Assistant Deputy Administrator for Program Operations	7/1/79	Career	Career Reserved
Donald L. Houston	Food Safety and Inspection Service	Administrator	9/20/81	Career	General
Luverne L. Gast	Food Safety and Inspection Service	Associate Administrator	12/12/82	Career	General
John W. McCutcheon	Food Safety and Inspection Service	Director, Policy and Program Planning	8/10/80	Career	General
Joseph A. Powers	Food Safety and Inspection Service	Deputy Administrator, Administrative Management	8/28/77	Career	Career Reserved
Milton D. Ray	Food Safety and Inspection Service	Assistant Deputy Administrator, Administrative Management	10/23/77	Career	Career Reserved
Ronald E. Engel	Food Safety and Inspection Service	Deputy Administrator, Science	9/16/79	Career	Career Reserved
Thomas R. Murtishaw	Food Safety and Inspection Service	Assistant Deputy Administrator, Science	7/27/80	Career	Career Reserved
Milton Goodman	Food Safety and Inspection Service	Assistant Deputy Administrator, Compliance and Staff Operations	6/27/82	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Ronald J. Prucha	Food Safety and Inspection Service	Deputy Administrator, Meat and Poultry Inspection Operations	11/28/82	Career	General
Merlin A. Nelson	Food Safety and Inspection Service	Deputy Administrator, Meat and Poultry Inspection, Technical Services	6/13/82	Career	General
Wilson S. Horne	Food Safety and Inspection Service	Assistant Deputy Administrator, Inspection Operations	6/13/82	Career	Career Reserved
Maurice McNay	Food Safety and Inspection Service	Regional Director, Northeast Region	11/2/80	Career	Career Reserved
Kenneth McDougall	Food Safety and Inspection Service	Regional Director, North Central Region	10/19/80	Career	Career Reserved
Newman B. Isom	Food Safety and Inspection Service	Regional Director, Southwest Region	7/13/80	Career	Career Reserved
Donald C. Breeden	Food Safety and Inspection Service	Regional Director, Western Region	12/12/82	Career	Career Reserved
Victor H. Berry	Food Safety and Inspection Service	Deputy Administrator, International Programs	11/22/82	Career	Career Reserved
Martin F. Fitzpatrick	Office of Transporation	Director	2/17/81	Noncareer	General
Billy H. Jones	Packers and Stockyards Administration	Administrator	10/4/81	Noncareer	General
James L. Smith	Packers and Stockyards Administration	Deputy Administrator	4/20/80	Career	General
Everett G. Rank, Jr.	Agricultural Stabilization and Conservation Service	Administrator	3/9/81	Noncareer	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Chauncey Leggett, Jr.	Agricultural Stabilization and Conservation Service	Associate Administrator	3/11/81	Noncareer	General
Edward D. Hews	Agricultural Stabilization and Conservation Service	Deputy Administrator, Plannig and Program Development	1/10/82	Noncareer	General
Roger K. Bottrell	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, Management	4/20/82	Career	General
Lester W. LeCompte	Agricultural Stabilization and Conservation Service	Accounting Officer	10/4/81	Career	Career Reserved
Clarence L. Tardy	Agricultural Stabilization and Conservation Service	Deputy Administrator, State and County Operations	3/11/81	Noncareer	General
Roy T. Cozart	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, State and County Operations	7/26/81	Noncareer	General
Merrill D. Marxman	Agricultural Stabilization and Conservation Service	Deputy Administrator, Commodity Operations	8/8/82	Noncareer	General
James G. Schlick	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, Commodity Operations	9/19/82	Career	General
Chipman C. Bull	Agricultral Stabilization and Conservation Service	Assistant Deputy Administrator, Commodity Operations	6/7/81	Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Fred T. Plybon	Agricultural Stabilization and Conservation Service	Director, ASCS Kansas City Field Office	12/12/82	Career	General
Grant B. Buntrock	Agricultural Stabilization and Conservation Service	Director, Cotton, Grain, and Rice Price Support Division	3/7/82	Career	General
Ray F. Voelkel	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, Program Planning and Development	12/12/82	Career	General
Thomas A. VonGarlem	Agricultural Stabilization and Conservation Service	Assistant Deputy Administrator, State and County Operations	6/27/82	Career	General
Leo V. Mayer	Foreign Agricultural Service	Associate Administrator	10/18/81	Noncareer	General
Melvin Sims	Foreign Agricultural Service	Associate Administrator and General Sales Manager	5/2/82	Noncareer	General
George Rossmiller	Foreign Agricultural Service	Director, Planning and Analysis	12/13/81	Career	General
Donald Novotny	Foreign Agricultural Service	Director, Grain and Feed Division	7/13/79	Career	Career Reserved
Philip L. Mackie	Foreign Agricultural Service	Director, Oilseeds and Products Division	7/13/79	Career	Career Reserved
Gilbert Sindelar	Foreign Agricultural Service	Director, Sugar, Horticultural and Tropical Products Division	7/13/79	Career	Career Reserved
Louis G. Davis	Foreign Agricultural Service	Assistant Administrator, Management	12/13/81	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Richard Cannon	Foreign Agricultural Service	Assistant Administrator, International Agricultural Statistics	12/13/81	Career	General
Jimmy Minyard	Foreign Agricultural Service	Assistant Administrator, Foreign Market Development	7/13/79	Career	General
Joan S. Wallace	Office of International Cooperation and Development	Administrator	7/6/81	Career	General
Robert P. Scherle	Office of International Cooperation and Development	Associate Administrator	7/11/82	Noncareer	General
John E. Lee, Jr.	Economic Research Service	Administrator	4/18/82	Career	Career Reserved
George H. Hoffman	Econcmic Research Service	Deputy Administrator	7/25/82	Career	Career Reserved
Thomas White	Economic Research Service	Director, International Economics Division	8/18/80	Career	Career Reserved
Melvin L. Cotner	Economic Research Service	Director, Natural Resource Economics Division	4/14/74	Career	Career Reserved
Kenneth L. Deavers	Economic Research Service	Director, Economics Development Division	1/25/77	Career	Career Reserved
William E. Kibler	Statistical Reporting Service	Administrator	11/9/75	Career	Career Reserved
Wilbert H. Walther	Statistical Reporting Service	Deputy Administrator	2/12/82	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Donald W. Barrowman	Statistical Reporting Service	Director, Estimates Division	6/29/80	Career	Career Reserved
Charles E. Caudill	Statistical Reporting Service	Director, Statistical Research Division	11/7/75	Career	Career Reserved
Ricahrd D. Allen	Statistical Reporting Service	Director, Survey Division	12/12/82	Career	Career Reserved
Raymond R. Hancock	Statistical Reporting Service	Director, State Statistical Division	10/5/80	Career	Career Reserved
James R. Donald	World Agricultural Outlook Board	Chairperson	8/8/82	Career	Career Reserved
Allan S. Johnson	Economics Management Staff	Director	6/29/80	Career	Career Reserved
Terry N. Barr	Economic Analysis Staff	Director	8/8/82	Career	General
John G. Stovall	Agricultural Research Service	Assistant Deputy Director for Administrative Programs	11/17/82	Career	General
Ernest L. Corley	Agricultural Research Service	Chief, Program Planning Staff	9/24/78	Career	General
Terry B. Kinney	Agricultural Research Service	Administrator, Agricultural Research Service	6/15/80	Career	General
Paul J. Fitzgerald	Agricultural Research Service	Regional Administrator, North Central Region	6/1/80	Career	General
Richard L. Dunkle	Agricultural Research Service	Associate Regional Administrator, North Central Region		Career	General

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
William H. Tallant	Agricultural Research Service	Regional Administrator, Northeastern Region	3/7/83	Career	General
Glen E. Vanden Berg	Agricultural Research Service	Associate Regional Administrator, Northeastern Region	12/24/72	Career	General
H C Cox	Agricultural Research Service	Regional Administrator, Western Region	10/26/75	Career	General
William G. Chace	Agricultural Research Service	Associate Regional Administrator, Western Region	3/13/77	Career	General
Edgar L. Kendrick	Agricultural Research Service	Regional Administrator, Southern Region	12/3/78	Career	General
Robert F. Barnes	Agricultural Research Service	Associate Regional Administrator, Southern Region	7/12/79	Career	General
Edward E. Knipling	Agricultural Research Service	Associate Deputy Administrator, Agricultural Research Service	11/14/82	Career	Career Reserved
Mary E. Carter	Agricultural Research Service	Associate Administrator, Agricultural Research	10/19/80	Career	General
Walter Mertz	Agricultural Research Service	Director, Beltsville Human Nutrition Research Center	1/9/83	Career	Career Reserved
Robert A. Rhodes	Agricultural Research Service	Director, Northern Regional Research Center		Career	Career Reserved
Clifford Hesseltine	Agricultural Research Service	Chief, Fermentation Laboratory, Northern Regional Research Center	10/26/75	Career	Career Reserved
Phillip A. O'Berry	Agricultural Research Service	Director, National Animal Disease Center	3/17/74	Career	Career Reserved

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Paul A. Putnam	Agricultural Research Service	Director, Beltsville Agricultural Research Center	6/29/80	Career	Career Reserved
Tien C. Tso	Agricultural Research Service	Chief, Tobacco Laboratory, Beltsville Agricultural Research Center	3/27/77	Career	Career Reserved
Herbert L. Rothbart	Agricultural Research Service	Director, Eastern Regional Research Center	11/2/80	Career	Career Reserved
Jerry J. Callis	Agricultural Research Service	Director, Plum Island Animal Disease Center	1/3/83	Career	Career Reserved
Arthur I. Morgan	Agricultural Research Service	Director, Western Regional Research Center	1/21/73	Career	Career Reserved
Jan Van Schilfgaarde	Agricultural Research Service	Director, U.S. Salinity Laboratory	9/3/72	Career	Career Reserved
Leonard Jurd	Agricultural Research Service	Research Leader, Natural Products Chemistry Research	2/13/77	Career	Career Reserved
Peter H. van Schaik	Agricultural Research Service	Area Director, California-Hawaii-Nevada Area	2/20/83	Career	Career Reserved
Dean F. Davis	Agricultural Research Service	Director, Florida-Antilles Area	1/5/75	Career	Career Reserved
David E. Zimmer	Agricultural Research Service	Director, Athens-Georgia Area	9/7/80	Career	Career Reserved
Ivan W. Kirk	Agricultural Research Service	Director, Southern Regional Research Center	10/17/82	Career	Career Reserved
Joseph R. Johnston	Agricultural Research Service	Director, Okahoma-Texas Area	1/5/75	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Donald E. Moreland	Agricultural Research Service	Research Leader, Physiology and Photosynthesis Research	8/13/78	Career	Career Reserved
Donald E. Wiedhaas	Agricultural Research Service	Director, Insects Affecting Man Laboratory	8/13/78	Career	Career Reserved
Arthur H. Nies	Agricultural Research Service	Deputy Director for Administrative Management	7/23/78	Career	Career Reserved
Howarde E. Sauberlich	Agricultural Research Service	Leader, Military Nutrition Research Program	6/22/80	Career	General
James M. Iacono	Agricultural Research Service	Director, Western Human Nutrition Research Center	5/27/82	Career	Career Reserved
Russell L. Steere	Agricultural Research Service	Chief, Plant Virology Laboratory, Beltsville Agricultural Research Center	8/31/75	Career	Career Reserved
Harold L. Barrows	Agricultural Research Service	Director, National Soil Erosion Research Laboratory	4/3/83	Career	Career Reserved
Thomas Army	Agricultural Research Service	Assistant Administrator, National Programs Staff	9/7/80	Career	Career Reserved
Marshall D. Levin	Agricultural Research Service	Director, USDA Honey Bee Research Laboratory	2/20/83	Career	Career Reserved
Vincent P. Maier	Agricultural Research Service.	Research Leader, Fruit and Vegetable Chemistry Research	9/30/78	Career	Career Reserved
Hamish Munro	Agricultural Research Service	Director, Human Nutrition Laboratory	3/21/80	Career	Career Reserved

NAME	AGENCY	TITLE	DATE OF APPOINTMENT	STATUS	POSITION TYPE
Richard R. Rankin	Agricultural Research Service	Associate Deputy Director, Administrative Management	5/18/80	Career	Career Reserved
Mary Nell Greenwood	Extension Service	Administrator	9/24/80	Career	General
Denzil O. Clegg	Extension Service	Associate Administrator	11/1/81	Career	General
Charles L. Beer	Extension Service	Assistant Deputy Director, Agriculture	4/20/80	Career	General
Merrill Petoskey	Extension Service	Assistant Deputy Director, Natural Resources	3/11/79	Career	General
John S. Bottum	Extension Service	Deputy Administrator, Program Development, Evaluation and Management Systems	10/31/82	Career	General
Eugene Williams	Extension Service	Deputy Administrator, 4-H Youth Development	10/1/80	Career	General

Working Capital Fund

Question: Would you please outline for the committee the recommendations of the WCF Advisory Task Force and indicate how USDA will address these recommendations? Do you expect major changes will be made in the overall operation of the Working Capital Fund?

Answer: The recommendations made by the WCF Advisory Task Force has been implemented and are improving the effectiveness, efficiency, and economy of the Working Capital Fund. The following is the current status of the WCF Advisory Task Force Principal recommendations:

1. Establish a Working Capital Fund Administrator, to whom all WCF financed activities would report.

   Action to date: The position of Comptroller for WCF activities was established on April 1, 1981 by Secretary's Memorandum 1043-1. The major responsibilities of the WCF Comptroller are as follows:

   (a) Advise the Assistant Secretary for Administration on all Fund related policy, budget, financial and management improvement matters;

   (b) Approve those regulations, procedures and rates which have an impact on the financial health of the Fund; and

   (c) Develop and administer a program to monitor and improve the current and future operation of the Fund.

2. Remove nonauthorized activities and activities which do not meet the criteria for WCF financing.

   Action to date: Removal of all activities that were recommended by the WCF Advisory Task Force were accomplished during FY 1982.

3. Abolish all overhead charges and authorize the Fund Administrator to obtain administrative support services through a reimbursable agreement, the costs of which would be recovered through the Working Capital Fund.

   Action to date: Removal of overhead charges were accomplished during FY 1982. Beginning with FY 1983, reimbursable agreements will be used to obtain necessary administrative management support services.

4. Require that administrative staff offices' be financed entirely through appropriated funds or, in a few cases where appropriate, through agency reimbursement.

   Action to date: The staff offices activities in question were financed through reimbursement in FY 1982. For FY 1983, those staff offices activities were partially converted to appropriated funding. In FY 1984 they will be completely funded through Appropriations.

5. Establish an interagency board to review and monitor WCF planning and budgeting and to advise the Assistant Secretary for Administration on the functioning of the Fund.

   Action to Date: Secretary's Memorandum 1043-1 established the Working Capital Fund Review Board. The major responsibilities of the Board are as follows:

   (a) Advise the Assistant Secretary for Administration of all Fund related policy, budgets, financial, and management improvement matter;

   (b) Advise the Comptroller on the establishment of Fund related regulations and procedures;

   (c) Participate in oversight reviews on the use of the Fund and the services provided.

6. Require agencies to formalize and improve their estimating requirements for services from Working Capital Fund activities.

   Action to Date: As part of the FY 1985 Budget Development Process, fund activities have been requested to require agencies to estimate their service requirements for FY 1984-85.

7. Instill budget discipline and cost-consciousness throughout the fund and enforce it through periodic status-of-fund reviews.

   Action to Date: A year-end status report was prepared and presented to the Interagency Advisory Board for FY 1982. During FY 1983, each staff office will prepare and present a quarterly status of fund report to the Interagency Advisory Board. This quarterly review will focus on the effectiveness, sufficiency and economy of services provided to user agencies.

8. Improve procedures for notification and explanation of changes in WCF services and unit charges.

   Action to date: The quarterly Interagency Advisory Board status of funds meetings provide not only a means of notification but also an opportunity for open discussion on the effectiveness and efficiency of all significant WCF changes.

9. Provide more comphrensive program and budget data to the Department and to the Congress regarding WCF activities.

   Action to date: More detailed budget and program explanations have been developed for the FY 1984 Budget. Our plans are to improve on the budget presentation for FY 1985.

Question: You indicate in your statement that an Interagency Advisory Board has been set up to review the budgets for these activities. Who are the members of this board?

Answer: The following is the list of Interagency Advisory Board Members:

Name and Title	Agencies Represented
Lawrence B. Slagle Deputy Administrator for Management	Animal and Plant Health Inspection Service
Allan B. Johnson Director, Economics Management Staff	Economics Reseach Services Statistical Reporting Service World Agriculture Outlook Board
Joseph Bennett Deputy Administrator for Administration	Food and Nutrition Service
Jerome A. Miles Deputy Chief for Administration	Forest Service
Charles A. Jewell Deputy Administrator for Financial and Administrative Operations	Farmers Home Administration
Authur H. Niss Deputy Director for Management	Agricultural Research Service Cooperative State Research Service Extension Service National Agricultural Library Office of Grants and Program Systems
Robert G. Halstead Deputy Chief for Administration	Soil Conservation Service
Robert Sherman Deputy Director Budget Legislative Regulatory System	Office of Budget and Program Analysis

Question: Has a Comptroller of the WCF been named? How will his selection be made?

Answer: Yes, USDA's Chief Financial and Management Officer, John E. Carson, who also serves as the Director for the Office of Finance and Management, was designated the Comptroller of the Working Capital Fund in April, 1982. The Comptroller of the Working Capital Fund is designated by the Assistant Secretary for Administration.

WCF LEGISLATIVE PROPOSAL

Question: It is my understanding you are submitting proposed legislation which would increase the authorized level of capitalization from $400,000 to $30,000,000. Would you please advise the committee why you feel this is needed now?

Answer: Over the years since the WCF was established in 1943, it has grown from a $1 million annual operation level to nearly $100 million. New activities not contemplated in 1943, such as computer, tele-processing, and accounting services, have been added to the activities initially funded by this mechanism. When a new function was added to the WCF, the assets and liabilities associated with that activity were also added to WCF. This has resulted over the years in the government' capital equity the WCF increasing from $400,000 to its present level of over $12,000,000.

It is proposed to allow for future growth in the activities of the WCF by allowing the capital equity level to go up to $30 million. No appropriations are being requested this year. The Government's capital equity level would be derived from the value of the assets currently in the WCF, those assets which may be brought into the WCF at a further time as new activities are added, equipment acquisition funds transferred from the agencies of the Department, and any future appropriations to the WCF by Congress.

The proposed legislation would specifically provide that transfers for the purpose of obtaining needed equipment would be made subject to such limitations as may be provided in appropriation acts for the Department. Over the past three fiscal years provisions in appropriations acts have limited such charges to $4 million.

OFFICE OF THE GENERAL COUNSEL

OFFICE OF THE INSPECTOR GENERAL

STATEMENTS OF:
- A. JAMES BARNES, GENERAL COUNSEL
- JOHN V. GRAZIANO, INSPECTOR GENERAL

ACCOMPANIED BY:
- JOHN NOAKES, DEPUTY GENERAL COUNSEL
- ANTHONY J. GABRIEL, DEPUTY INSPECTOR GENERAL
- DONN E. ADKISSON, ACTING ASSISTANT INSPECTOR GENERAL FOR AUDIT
- THOMAS J. BURKE, ASSISTANT INSPECTOR GENERAL FOR INVESTIGATIONS
- ROBERT F. SMITH, ASSISTANT INSPECTOR GENERAL FOR SECURITY AND SPECIAL OPERATIONS
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

SECOND PANEL

Senator COCHRAN. Our next panel consists of representatives from the Office of the General Counsel and from the Office of the Inspector General.

The Office of the General Counsel is the Department's in-house law firm. It provides essential legal advice, services, and planning for virtually every USDA program. For the next fiscal year, the President is requesting $14.3 million, an increase of $1.3 million over the 1983 level, including a pay supplemental.

The Office of the Inspector General is responsible for providing the Department with policy direction and for conducting all audits and investigations. Its activities focus on promoting economy and efficiency, and it seeks to detect and prevent fraud and abuse in departmental programs. The budget request for the Office of the Inspector General for next year is for an appropriation of $29.8 million, an increase of $1.5 million over the amount provided in fiscal year 1983.

PREPARED STATEMENT

We want to welcome to the subcommittee Mr. Jim Barnes, who is General Counsel at USDA, and Inspector General John Graziano and their colleagues. Would you please introduce those who are with you this morning, and then we invite you to make any summary comments that you like. We will include your full statements in the record.

[The statements follow:]

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STATEMENT OF A. JAMES BARNES

Mr. Chairman and members of the Subcommittee, I appreciate the opportunity to appear here today to discuss with you the appropriation request for the Office of the General Counsel for fiscal year 1984.

OGC FUNCTIONS AND ORGANIZATION

Before turning to the budget request I would like to take a few moments to explain the responsibilities, functions, and organization of the Office of the General Counsel.

The Office serves as legal counsel for the Secretary and performs all legal work for the Department. This includes such functions as the provision of written and oral legal advice and opinions; review of rules and regulations; drafting or review of proposed legislation; preparation and interpretation of contracts, mortgages, leases and deeds; prosecution of patent applications; examination of land titles; representation of the Department in formal administrative proceedings; and assisting the Department of Justice in prosecuting and defending cases in which USDA has an interest.

In addition, attorneys from this Office frequently act as trial attorneys in lieu of attorneys from the Justice Department, or handle briefing and argument of cases on appeal. This is done under special delegations of authority from the Justice Department on a case-by-case basis. It is important to note that, while our cases in Federal courts are usually tried by attorneys from the Justice Department and the offices of the U.S. Attorneys, the preparation of these cases is always handled by our USDA attorneys. These lines are sometimes blurred, however, and USDA attorneys do handle trial or appellate work with some frequency.

Regarding our organization, OGC has attorneys both in the Washington headquarters and the field. We have eleven divisions in Washington with each division handling the legal work of at least one USDA program agency. Our four Associate General Counsels direct the work of the divisions, each having at least two divisions reporting to them. Approximately 55 percent of our personnel are assigned to Washington.

In the field, OGC has for some time maintained fourteen field offices which primarily support field activities of the Agricultural Stabilization and Conservation Service, Commodity Credit Corporation, Farmers Home Administration, Federal Crop Insurance Corporation, Forest Service, Food and Nutrition Service and Soil Conservation Service. These field offices are physically located in: Albuquerque, New Mexico; Atlanta, Georgia; Chicago, Illinois; Denver, Colorado; Harrisburg, Pennsylvania; Hato Rey, Puerto Rico; Kansas City, Missouri; Little Rock, Arkansas; Milwaukee, Wisconsin; Missoula, Montana; Ogden, Utah; Portland, Oregon; San Francisco, California; and Temple, Texas. About 45 percent of our personnel are in these field offices.

Currently, as directed by the House and Senate Appropriations Committees, we are in the process of establishing three new field offices. The first, in Stillwater, Oklahoma, opened for business on February 28, 1983. The second, in Juneau, Alaska, has been functioning through temporarily assigned attorneys and is planned to be fully in operation under the direction of a resident attorney on or about May 1, 1983. This is also the target date for a third new office in Jackson, Mississippi, for which we are currently recruiting personnel and establishing the necessary facilities.

1984 BUDGET REQUEST

The fiscal year 1984 budget request for the Office of the General Counsel is $14,976,000. This represents an increase of $1,064,200 over fiscal year 1983 as adjusted. The increase consists of $53,000 to annualize pay costs absorbed in fiscal year 1983; $187,200 for increased operating costs other than salaries and benefits; $190,000 for word processing equipment, improved legal research facilities, and automated case management; and an increase of $634,000 to increase the field office staff.

By far the largest proportion of this requested increase, and of OGC's existing budget, consists of personnel costs. This reflects the fact that OGC's major resource is the legal and other personnel who deliver legal services for the Department.

GENERAL COMMENTS

The request for fiscal year 1984 for the Office of the General Counsel is one that will allow OGC to continue to provide quality legal services and to discharge our responsibility as the legal arm of the Department. This request represents an increase from last year's budget in both dollars and corresponding levels of legal and support staff. It is consistent with the President's goal of limiting the growth of Federal spending except where it contributes to improving efficiency. The requested funding level will require us to continue to manage our resources carefully and to continue to provide close scrutiny of all spending decisions--a responsibility we must always exercise in the expenditure of public funds.

As we seek to attain these goals, we are mindful that it is essential that we continue to place a premium on the quality and quantity of the work product of our employees. We must also continue the progress we have made to become more efficient through the use of existing technology. We must strive to keep our productive and experienced employees motivated and interested in remaining with OGC and not simply be a training ground for lawyers who leave for the private sector when they have become most valuable to us. I am committed to aggressively pursuing training, professional development and promotion policies to further this goal. By so doing, we hope to maintain an atmosphere of professionalism where our employees feel challenged and have the incentive to continue to produce high quality legal work.

THE NEED FOR SOME ADDITIONAL RESOURCES

While two aspects of our requested increase, funding to restore absorbed pay costs and increased operating costs, warrant no special explanation, I would like to detail the other parts of our requested increase. We find it necessary to equip ourselves to respond to three strongly emerging forces. First, the sheer number of legal matters, particularly cases, referred to our Office has increased dramatically over the past two years. For example, when I came to the Office of the General Counsel in early 1981, we had approximately 12,000 active civil cases; now the number is double that figure. Second, the Department of Justice, especially the 96 U.S. Attorneys' offices, is demanding a heavier involvement, and in many instances a complete assumption, of litigation and litigation-related services by our offices. These are matters which have been traditionally handled by the U.S. Attorneys, but which our personnel are being called upon to handle because of our experience and expertise and because of the limited and overextended resources in the U.S. Attorneys' offices. Third, our society continues to become more litigious. There is a significant increase in the legal challenges to our programs, policies and decisions. As a result, we need to commit our resources to litigation-related problems on a greater scale than in prior years. Thus, in order to adequately and agressively protect public assets, public interests, and Congressionally-established programs, we need some additional physical and personnel resources.

WORD PROCESSING, RESEARCH EQUIPMENT, AND AUTOMATED CASE MANAGEMENT

We have requested $190,000 to continue to upgrade our ability to effectively and efficiently turn out our work product through the installation of word processing equipment. Last year, this Committee and the Congress provided us some initial funding for this purpose. Commencing early in fiscal year 1982 and continuing today, we have been installing and putting into use word processing equipment, both in Washington and in our field offices. A survey of those with access to the new equipment has elicited positive accomplishments which have exceeded our most optimistic expectations. Productivity is up, the paperwork takes less time, morale has increased, and the staff has an enhanced sense that increasing workloads may be manageable. A variety of case handling innovations are being tried and we have numerous requests for additional equipment. Even at this early date, the value of this equipment is evident.

Our offices must produce and/or handle large amounts of documents many of them in multipaged units, e.g. loan documents, briefs, proposed regulations, and many of which require considerable revision. The word processing equipment allows us to move substantial quantities of such work through our offices with a minimum amount of secretarial or clerical work. The quality of the final work product is excellent.

Several of our offices have undertaken a program to identify, inventory and update the status of the legal matters referred to them. Such case management systems can be expected to help assure that service will be rendered in a timely manner. They will also greatly assist supervising attorneys in dealing with client inquiries and in making work assignments equitable. The new word processing equipment that we have or are requesting, along with software that we can acquire, will enable us to expand the number of our offices that will have access to automated case management.

The requested funds will be used to purchase such equipment new or to convert from rentals. At this point some word processing equipment is in use in all but two of our field offices or Washington divisions. In our field offices about one third of our support staff that does significant typing work has ready access to word processing equipment; in the Washington office about half of our support staff has ready access to such equipment.

The equipment funding will also assist us in upgrading our legal research facilities. Our law library, which was transferred back to the Office of the General Counsel in 1982, is a critical resource. We have undertaken to install a new and more extensive system for automated legal research that greatly expands the ability of our lawyers to quickly research questions and to feel more comfortable about the completeness of the research.

We also have under consideration the installation of micro-fiche equipment on a pilot basis. This equipment will allow us to utilize film reproductions of some legal research volumes. If this gains acceptance and use, it could reduce our future needs for the purchase of bound legal reference works, and perhaps more significantly, reduce our expanding library space requirements.

These equipment needs for word processing and automated research are typical of the manner of operation of modern law offices in both the public and private sector. This equipment enables us to more efficiently handle the growing workload without the necessity for proportionate increases in staffing and related resources.

PERSONNEL AND RELATED COSTS

The largest item requested is for $634,000 to increase field office staff. While much of this need can be attributed to increasing workloads, the character of our workload is also changing. There are two major facets to this change: (1) the heavier involvement of our personnel in litigation, both in Washington and in the field; and (2) the growing need to provide legal counsel to FmHA as loans are made, or financing arrangements are modified or deferred.

As we noted earlier in our testimony, the amount of litigation USDA is involved in continues to increase--and the role the Department's attorneys are called upon to play also continues to expand as hard pressed U. S. Attorneys look to us to provide more and more of the necessary litigation support or to handle the matters completely ourselves. This requires not only additional time and talent of attorneys but also that of support staff. Case preparation, brief writing, and preparing and/or responding to interrogatories and document requests require us to maintain a support staff that can act quickly and produce a quality work product in high volume.

We have relatively little control over the amount of litigation in which USDA is involved. Review of proposed actions can help put the Department in a better position to defend its actions--but cannot insure they will not be challenged by those who disagree with them. Review of proposed lawsuits by the Department can winnow out inadequately developed cases--but in many instances lawsuits are the only potentially effective way for USDA to protect the public interest and the assets of the government.

The growing backlog of cases is the most apparent in our field offices. Our staff in those offices are dedicated, experienced, professional and hard working. Yet despite our efforts to provide additional word processing equipment and to streamline procedures (not only within the office but also with the client and with the Department of Justice), the backlog continues to grow.

The need to provide additional legal counsel in connection with pending transactions, servicing of loans, etc., is also the most apparent at the field level.

Therefore, we are requesting a modest increase in our appropriation to allow us to add fifteen additional personnel to our field staff in FY 1984. This request would enable us to meet the Congressional direction that we open new offices in Stillwater, Oklahoma; Jackson, Mississippi; and Juneau, Alaska, without having to draw our resources down at other field offices.

AGENDA

The Status of Program section of the Explanatory Notes extensively reviews the legal areas and issues with which our Office continually deals. In fiscal year 1984 I do not anticipate that this agenda will materially change. Many of our existing programs have been and will, of course be refined by legislative enactments and/or administrative changes. I expect that the requirements for legal services will not diminish, and I doubt if there is any field office or division of the General Counsel's office whose workload will decrease. Rather, as indicated above, we anticipate a continued demand for added legal services.

As lawyers we do not pick and choose our agenda. We do undertake to perform professional legal services of high quality in an efficient, time-saving, money-saving manner. We appreciate the support this Committee has given us in the past to help us carry out our mission.

Thank you, Mr. Chairman, for the opportunity to make this statement. I would be pleased to answer your questions.

STATEMENT OF JOHN V. GRAZIANO

Mr. Chairman, Members of the Committee, I appreciate the opportunity to appear before you today.

GENERAL COMMENTS

My statement will address OIG's perspective on major programs and activities of the Department of Agriculture as well as the activities of the Office of the Inspector General. During FY 1982, we issued 971 audit and 2,232 investigative reports. We also reported 1,390 indictments, 856 convictions, 19 suits filed and 300 fines levied totaling approximately $20 million. The period of time to get court action on indictments varies widely; therefore, the 856 convictions are not necessarily related to the 1,390 indictments. The audits resolved during FY 1982 resulted in disallowances and claims referred for recovery by program agencies of $94.6 million. These activities should have a salutary effect in preventing future program losses.

I would like to highlight OIG's efforts during the past year in fraud prevention, financial management, and meat inspection. I will also summarize OIG's participation in the President's Council on Integrity and Efficiency (PCIE) and review our activities involving five major USDA agencies -- the Food and Nutrition Service (FNS), the Farmers Home Administration (FmHA), the Agricultural Stabilization and Conservation Service (ASCS), Food Safety and Inspection Service (FSIS), and the Federal Crop Insurance Corporation (FCIC).

Law Enforcement Authorities

I would like to bring the Committee up to date on the implementation of OIG's new law enforcement authorities. In June 1982, I designated OIG Special Agents to begin exercising these law enforcement authorities. During the last quarter of fiscal year 1982 OIG Special Agents made 123 arrests and executed 14 search warrants for felony violations of laws administered by the Secretary of Agriculture. For FY 1983 through January 31, agents have made 74 arrests, and executed 4 search warrants.

FRAUD PREVENTION PROGRAM

Our initiative in the fraud prevention area continued during this past year as we emphasized our program designed to create an awareness of actions that can be taken to prevent fraud, waste, and mismanagement in the Department. The Office of the Inspector General performed an oversight role to ensure that the agencies performed vulnerability assessments of their operations by December 31, 1982, as required by the Office of Management and Budget's (OMB) Circular A-123, "Internal Control System".

These assessments will assist the Department in meeting the requirements of the Federal Managers' Financial Integrity Act of 1982, and OMB Circular A-123, by identifying internal control weaknesses.

MEAT INSPECTION

We continue to examine problems involving foreign meat substitution. We are currently conducting an investigation into meat import program irregularities in Central America. This investigation has resulted in a 5-count Federal indictment charging a meat importing firm and eight of its principal officers with conspiracy to circumvent the Federal Meat Inspection Act. The indictment charged the defendants with switching meat samples chosen by USDA inspectors and introducing adulterated and uninspected meat into U. S. commerce. It further alleged that the defendants carried out a continuing scheme of deception which involved using counterfeit and simulated official USDA inspection stamps.

In a recent domestic investigation, five people were indicted on 12 counts of conspiracy and violations of the Federal Meat Inspection Act for conspiring to illegally slaughter and misbrand cancer-eyed, sick and otherwise diseased cattle without benefit of USDA inspection.

As a result we have made recommendations to FSIS to strengthen the Meat Inspection Program. FSIS has instituted a number of changes to decrease the likelihood that adulterated or misbranded meat and poultry products will enter the U.S. food distribution system. Improvements have been made in the control of "refused entry" products and notification to the country of origin concerning such products.

DEPARTMENTAL ADMINISTRATION

Cash Management

Our audit reviews of cash management procedures disclosed significant opportunities for the Department to reduce interest costs to the Treasury.

For example, we determined that FmHA could save about $19 million annually by reducing the time between receipt and deposit of loan repayments. We also found that improper use of FmHA's loan disbursement system by its county offices was costing over $20 million in increased interest. Additionally, we recommended that agencies which routinely receive large cash payments implement the Treasury Department's system of electronic funds transfer instead of using the mail and other manual processes to get these funds credited. Agencies such as ASCS/Commodity Credit Corporation (CCC), Forest Service (FS) and Rural Electrification Association (REA) could save substantial interest costs. We estimate that by accelerating the Treasury Department's access to USDA receipts by just 3 days, the government would save about $23 million per year in interest costs. The Department has responded by developing a cash management plan to assure timely handling of cash transactions. We intend to continue audit coverage to seek new ways to improve USDA's cash management.

Unliquidated Obligations

We worked with Department officials to develop a plan to implement the OMB recommendation for agencies to analyze unliquidated obligations. The plan called for reviewing selected agencies' construction obligations of more than $1 million that had no payment activity for 15 months. These reviews identified $50 million in the Department for deobligation. Our follow-up led the FmHA to deobligate $6.7 million and earmark another $15.7 million for possible future deobligation. In addition recent OIG field tests have identified still another $1.5 million that we believe FmHA could deobligate.

On August 24, 1982, we sent a report to the Secretary identifying problems with a Request for Contract Proposals covering $30 million planned to be obligated for job search activities in the Food Stamp Program. The report recommended that no funds be obligated until the identified problems had been satisfactorily addressed. In transmitting the report to Congress, the Secretary advised that because of the problems identified, he would not obligate funds for job search activities.

FOOD AND NUTRITION SERVICE

The programs of the Food and Nutrition Service (FNS) total $15.7 billion and account for almost 50 percent of the Department's total budget. These programs extend to all corners of the U.S. -- both urban and rural -- and include Federal, state, and county involvement in their delivery systems. FNS programs are highly visible to the public and, therefore, highly susceptible to fraud, waste and mismanagement.

Food Stamp Program

This program cost $11.3 billion in FY 1982 and accounted for the major portion of expenditures in the FNS budget. Most of our efforts involving FNS deal with the Food Stamp Program. During the past year we have detected underreporting of income, discrepancies in redemption procedures, and unauthorized recipients and retailers in the Food Stamp Program.

Computer Matching to Detect Underreported Income

Food stamp regulations require that all states implement a wage match system by January 1983 to detect income not reported by applicants for assistance. It is too soon to evaluate the results of this requirement, but we are currently looking at the states' efforts to implement matching.

We have used computers in conjunction with statistical sampling methods to match the income reported by food stamp recipients with wage history files maintained by the States. These methods also identify participants who may be receiving other Federal assistance, such as public housing sponsored by the Department of Housing and Urban Development (HUD), and Aid to Families with Dependent Children (AFDC) sponsored by the Department of Health and Human Services (HHS).

The results of our joint efforts in 1982 were significant. Working in 17 large food stamp projects nationwide, we identified about 246,000 cases of underreported income. Although the individual amounts were small in many cases, at one location we found 679 cases where income was underreported by $1,000 or more per month. We believe that in this area the underreporting resulted in at least $12 million in overissuance of food stamps for the various periods covered by the review of the 17 projects.

The ultimate measure of the success of wage matching, however, is the extent of corrective action taken. Although the work continues, over 16,000 ineligible households have either been removed from the rolls or have had benefits adjusted. We estimate these actions will reduce program costs by about $21 million annually. The matching projects disclosed potential areas of concern in other Federal programs. We have referred about 7,400 cases-to HUD and about 4,400 cases to HHS for further inquiry. In addition, OIG is cooperating with local fraud investigators in examining 2,739 cases for possible prosecution.

In cooperation with the Office of Personnel Management, we arranged for a computer match in one State to test for Federal employees receiving food stamps and public assistance. Of 758 Federal employees identified as receiving food stamps during September 1980 through April 1982, 182 had not reported wages or had significantly underreported income. $182 thousand in food stamps and over $441 thousand in public assistance had been overissued. Appropriate claims and/or investigative action is underway.

Department of Justice Task Force

As you know, Mr. Chairman, in September 1981, the Attorney General announced formation of a Department of Justice task force on food stamp fraud. An Assistant U.S. Attorney in each of 12 major cities was designated to coordinate investigations and conduct prosecutions of Food Stamp Program violators. We have also expanded joint investigations into other cities. OIG has frequently used a task force approach in working with State, local, and Federal law enforcement agencies in the Food Stamp Program.

Puerto Rico - Block Grant

Our early assessment of the Puerto Rico block grant Nutrition Assistance Program found that implementation has been encouraging. Improved monitoring of recipient eligibility and the use of more stringent eligibility standards, have reduced household participation by 16.5 percent from June 1982, the last month the coupon Food Stamp Program was in effect, to November 1982, the date of our initial review. Additionally, the use of a high security type of check to disburse program benefits allows its use to be traced and reduces the opportunity for falsification. Initial program statistics show that 90 percent of the program checks were cashed at food stores while less than two-tenths of one percent were reported lost or stolen, cancelled, or stopped for payment. It will, of course, take additional time to measure the impact of the block grant approach on the nutritional health of participants. Based on our review of the internal and external controls in place, we believe the program can be efficiently operated.

Food Stamp Redemptions and Reconciliation

In our last two Semiannual Reports, we discussed the lack of reconciliation between food stamp deposits and the redemption certificates the FNS uses to monitor store activity. In FY 1980 and FY 1981, for example, the Federal Reserve System reported receiving a total of $399 million in food stamps that FNS could not account for through its retailer redemption records.

At last year's hearing we reported that the FNS and one of the Federal Reserve Banks had tested a new system using redesigned documents and a change in document flow to help alleviate the redemption/reconciliation problems. The test has been successful, and as a result, the change in document flow will be instituted nationally over a period of time.

Retailer Identification

"Phantom stores" have been a source of concern for some time. These are stores that obtain authorization to redeem food stamps by fraudulently representing themselves as legitimate food retailers. Since many states require vendors to obtain numbered retail business or sales tax licenses, we recommended that FNS require all currently authorized food stamp stores and all new applicants to provide their state retail vendor identification numbers as evidence of their compliance with state retail vendor laws.

We believe that implementation of our recommendation could assure that only those firms in compliance with state vendor laws will be authorized to deal in food stamps, and it should significantly reduce opportunities for the "phantom stores" to obtain authorization to redeem food stamps. FNS is considering our recommendation.

Identification Documents

OIG has taken the lead in encouraging Immigration and Naturalization Service

(INS) to replace Form I-94, Arrival/Departure Document, with a new and secure ID card to nonresident aliens. In July 1982 INS notified the Inspectors General of State, USDA, DOL, HUD, HHS, Energy, and all State Motor Vehicle Commissioners that Form I-94 should not be used as an identifier. In August 1982, INS began to issue a new, secure "Immigrant Parolee" ID card, replacing the Form I-94. This change could reduce the amount of food stamps and other Federal benefits being obtained with the false identification documents.

Special Supplemental Food Program - Women, Infants and Children (WIC)

Our audit work has focused on improving the accounting and related internal control systems of the WIC Program. OIG recently completed a review of the benefits of requiring bulk purchase and direct distribution of infant formula to WIC recipients in lieu of the present food voucher system. Approximately 95 percent of the infant formula provided under the WIC program is purchased by recipients using food vouchers at retail outlets. Our review estimated that if the States or USDA purchased infant formula directly from manufacturers and delivered it to recipients' homes, either $111 million could be saved or 355,000 additional participants annually could be added to the program. Vermont and Maryland have effectively operated such programs for years, and at low cost. FNS disgreees with our recommendations. In a follow-up meeting with the U.S. Postal Service we learned it is capable of and very interested in handling the home delivery of infant formula anywhere in the United States. The rates the Postal Service quoted are in line with the cost estimates we used. We will continue to pursue this matter with FNS.

FARMERS HOME ADMINISTRATION

FmHA holds over 50 percent of the total USDA receivables and and nearly 90 percent of its delinquencies. We have increased the emphasis on cash and debt management in FmHA during the past year. Amounts loaned have increased significantly in recent years. At the end of FY 1982, FmHA had about 1.5 million borrowers with an outstanding loan principal of about $58.9 billion.

Farm Operating and Emergency Loans - Delinquent Emergency Loans

In 1980-81 OIG reviewed a statistically selected sample of borrowers in FmHA Farm Operating and Emergency Loan Programs and projected that nearly 37,000 borrowers had disposed of mortgaged property without agency permission or knowledge. In many cases, remaining security was inadequate to cover the loan balance, placing a projected $1.4 billion loan balance in jeopardy. This audit resulted in FmHA developing and implementing a procedure to make borrowers fully aware of their responsibility and accountability for the property used as collateral for loans.

To measure the success of the revised procedures, we initiated a follow-up audit of deliquent FmHA Emergency Loan borrowers in 1982. The results of this audit are just being finalized but initial projections show that unauthorized disposal of mortgaged property and undersecured delinquent loans remain a significant problem. Since the current condition of the farm economy places added significance on this issue, we are working with the Department to develop reasonable solutions which will better insure the maintenance of adequate security for the outstanding loans.

Business and Industrial Loan Program - Liquidation and Foreclosure Processes

An audit of FmHA's Business and Industrial Loan Program found that problems in liquidation and servicing of guaranteed loans caused a loss of nearly $40 million, or 52 percent of the original principal. This loss resulted from (1) personal guarantees that could not be enforced, (2) inadequate pre-liquidation and liquidation servicing, (3) incomplete liquidation plans, and (4) the absence of audits before final liquidation determinations were made.

We made fifteen recommendations for regulatory and procedural changes that would strengthen FmHA's controls over liquidation actions and improve its identification and management of delinquent and problem loan accounts. FmHA stated that it will implement new State office procedures to better ensure the enforceability of guarantees, and that it will establish policies to protect collateral.

Rural Housing Program - Credit Report Fees

Since 1978 FmHA has incurred an expense of $5.8 million for credit reports because the agency did not charge unsuccessful applicants a fee for obtaining a credit report. FmHA's position was that since all applicants for housing loans cannot obtain credit from private sources, only the successful applicants should be charged a credit report fee. OIG recommended that all applicants be charged an appropriate fee to cover the cost of the credit report. FmHA has agreed to adopt this suggestion.

FmHA Preventive Audits

As part of our preventive effort, we looked at FmHA's graduation of rural housing borrowers to private sector financing. In a nationwide audit we statistically projected about $100 million in potential interest savings based on $1.3 billion in rural housing loans which have a high potential for graduation to private sector lending institutions. Corrective action was begun during the audit with the Administrator establishing as a high priority the graduation of borrowers to the private sector. Replies from the State and County units that we audited show that many borrowers identified by OIG as having a high potential to graduate have successfully obtained commercial financing.

This year we plan to intensify our efforts in monitoring FmHA's conversion of its accounting system and to implement a uniform management information system. We will continue to monitor FmHA's corrective action on past audits and use the preventive audit approach in reviewing newer loans. We will also give specific attention to implementation of corrective actions to graduate housing borrowers to the private credit sector.

AGRICULTURAL STABILIZATION AND CONSERVATION SERVICE

Agricultural Stabilization and Conservation Service programs through the Commodity Credit Corporation have increased as farm commodity prices declined. Due to adding another bumper crop to existing surpluses, the farm community is faced with the prospect of continued seriously depressed prices at a time of unusually high agricultural commodity surpluses, particularly grains. To help alleviate this condition the Secretary authorized a substitution program and a Payment-In-Kind (PIK) Land Conservation program. We are giving priority emphasis to the PIK program.

Soon after the PIK program was announced, we began monitoring program development. We have now accelerated our efforts by initiating a series of special audits to monitor and test compliance with the PIK program on a nationwide basis. Our basic objective is to identify problems in the implementation process and to detect weaknesses in systems or procedures that could impact on the delivery of 1983 PIK commodities. We are developing a comprehensive audit plan consisting of a "phased-in" approach (four phases) to the various stages of the 1983 PIK program. Our audit effort will include an active role in all aspects of the PIK program and will concentrate on areas considered to be the most vulnerable to fraud, waste and mismanagement.

Sight Draft and Social Security Number Accountability

OIG used computer data base analyses of payments to review controls over ASCS sight drafts. We found that blank sight drafts are vulnerable to theft and unauthorized use. An ongoing investigation awaiting prosecutive action, reveals that an ASCS employee and some confederates stole blank sight drafts from a neighboring county office and negotiated three of them worth a total of $237,351. The employee also prepared bogus loan documents in the name of one of his confederates and issued another $120,878 worth of sight drafts for the purported commodity loans.

A recent audit found that ASCS' automated controls were unable to identify payments to producers who have invalid identification or social security numbers. This weakens automated controls over the maximum payments producers may receive in a year, and results in inaccurate information being reported to the Internal Revenue Service. ASCS officials have agreed to take corrective action.

FEDERAL CROP INSURANCE CORPORATION

Among the FCIC audits we conducted during the past year were premium billing, collection and debt management activities; and reinsurance activities.

Premium Billing, Collection, and Debt Management

We recommended that FCIC significantly change its premium billing procedure to better correlate to the period in which they assumed insurance liability on planted crops. We also recommended that FCIC provide incentives, such as charging interest on late payments to reduce premium delinquencies. The report provided six recommendations with estimated potential monetary savings of $11.9 million.

FCIC complied with our recommendations by accelerating its billing cycle and imposing a late charge fee of 1.5 percent per month to begin 30 days after the billing date to encourage prompt payment of premiums.

Reinsurance Activities

In 1981 reinsured companies received excessive administrative expense reimbursements, and policies were not adjusted for risk experience. This year we plan to follow up on prior audit findings to determine whether cancelled policyholders were being properly classified as carryover business in 1982. Also, we have initiated an audit survey of actuarial activities and are continuing to monitor system development operations.

FY 1984 OIG BUDGET REQUEST

The Office of Inspector General's FY 1984 budget request is $44,579,000, a net increase of $1,575,000 over FY 1983. The increase includes: $623,000 for annualization of pay costs absorbed in FY 1983; $538,000 for increased operating costs; $884,000 for increased ADP costs and computer matching; and a decrease of $470,000 that results from a revised method of financing EEO complaint appeals investigations.

ADP Increase

ADP capabilities are very instrumental in carrying out the audit and investigative functions. We operate in an atmosphere of "doing more with less." However our requirements do not remain static. ADP usage provides the means to help us meet various reporting demands. Additionally, USDA agencies are constantly developing automated systems to operate their programs. The $884,000 ADP increase will allow us to upgrade and expand our nationwide office automation system, and provide for expanded use of ADP capabilities in our audit and investigative activities in such areas as computer matching and statistical sampling.

EEO Investigations

When the Civil Rights Act of 1964 was passed, OIG assumed the responsibility for investigating EEO complaints. This added responsibility was without any increase in resources--dollars or staff-years.

Because of OIG's primary responsibility to conduct criminal investigations, and because of a backlog in EEO complaint cases, in February 1981 the Inspector General began contracting out USDA complaints of EEO violations to competitive and small business firms. The first contract assignments were made in June 1981. Each agency was to pay for its particular complaint investigations. The decrease of $470,000 is due to the revised method of financing EEO complaint investigations.

At this time I would be glad to answer any questions the Committee may have.

BIOGRAPHICAL SKETCHES

DONN E ADKISSON

Donn E Adkisson is the Acting Assistant Inspector General for Audit, Office of Inspector General, U.S. Department of Agriculture. He has held this position since May 1982.

Mr. Adkisson earned his bachelor's degree in accounting at the University of Iowa. He joined the U.S. Department of Agriculture in 1958 as an Internal Auditor with the Agricultural Stabilization and Conservation Service. He has served in various capacities in the Office of Inspector General including Regional Inspector General in the Midwest Region, Chicago, IL, and the Great Plains Region, Kansas City, MO.

He is a member of the Institute of Internal Auditors and the Association of Government Accountants.

Mr. Adkisson resides with his wife Joyce in Overland Park, Kansas.

ROBERT F. SMITH

Robert F. Smith is the Assistant Inspector General for Security and Special Operations, Office of the Inspector General. He was appointed to this position November 15, 1981. He has been involved in security and criminal investigative work for over 29 years.

From April 1966 through March 1980, Mr. Smith served with the Office of the Inspector General, United States Department of Agriculture. During this period, he served as a field criminal investigator, regional supervisor, Deputy Assistant Director of Security and Special Investigations, and Director of Security and Special Investigations.

During the period March 1980 to July 1981, Mr. Smith served as the Director of Field Operations, Office of the Inspector General, United States Department of Commerce. On July 20, 1981, Mr. Smith was detailed to the Office of Secretary, United States Department of Agriculture as a Special Assistant to the Secretary for Security. He served in that position until his present appointment.

During the year 1956 and from May 1958 to April 1966, Mr. Smith was employed as a criminal investigator with the Alcohol and Tobacco Tax Division, Bureau of Internal Revenue, United States Treasury Department.

Mr. Smith holds a B.S. degree in Economics and Business Administration from Moravian College, Bethlehem, Pennsylvania. He is a member of the International Association of Chiefs of Police, Fraternal Order of Police, and the American Society of Industrial Security.

OGC BUDGET OVERVIEW

Mr. **Barnes**. Thank you very much, Mr. Chairman. I have with me, although not at the table, my deputy, John Noakes.

I appreciate the opportunity to appear before you this morning, Mr. Chairman. As you indicated to us, we will submit our statement for the record.

By way of an overview, I might indicate that in the 2 years I have held the position as General Counsel, the number of civil cases that we have in our office has doubled, from about 12,000 to 24,000. This, along with the fact that the resources in the Department of Justice are stretched and they are reassigning work to us, such as handling bankruptcy matters and asking for much more active involvement on our part in litigation, has put a real strain on the resources of our office. That has led to a request by the Secretary and the President for some modest increase for us for 15 additional positions, which would be put entirely in the field offices—including the new office in Jackson, Miss.—to help service Farmers Home matters.

There is also a request for $190,000 to help us continue to implement our word processing system. We have been very heartened by what we have been able to do with the money you have provided us so far. We have had very good response from our staff. I think that is going to result in significant efficiencies in the way we operate within the office.

With that overview, we would be pleased to answer questions that you might have.

OFFICE OF THE INSPECTOR GENERAL

Senator **Cochran**. Thank you very much, Mr. Barnes.

Mr. Graziano?

Mr. **Graziano**. Thank you, Mr. Chairman. I would like to introduce some of the people at the table. On my left is Mr. Gabriel, who is the Deputy Inspector General. To his left is Mr. Adkisson, who is the Acting Assistant Inspector General for Audit, and to his left is Mr. Tom Burke, who is our Assistant Inspector General for Investigations. And I believe sitting in the first or second row is our Assistant Inspector General for Security and Special Operations, Mr. Bob Smith.

I would like to submit our statement for the record and to point out that a substantial portion of our requested increase is for increased ADP activities. We are increasing our activities in computer matching, and we are taking the opportunity to upgrade our office automation in order to accomplish the computer matching assistance.

PILOT PROJECT WITH FMHA IN REGIONAL OFFICES

Senator **Cochran**. I was pleased to learn about the progress being made in staffing these offices. I think there are going to be six or eight of these small offices established around the country. You referred to the one in Jackson, Miss., that will be advising the Farmers Home Administration Office.

Mr. **Barnes**. Yes, Mr. Chairman. As you know, we had a recent direction in the Appropriations Act to establish such offices in Stillwater, Okla. and Jackson, Miss. As we saw what that was going to make it possible for us to do, we thought we really ought to try to expand that concept and give it a test in a larger number of areas. So, we are setting up a pilot project in seven States. We will set up small offices contiguous to the Farmers Home offices to try to help serve the workload of these FmHA offices—to expedite the review of loan documents, to participate in loan closings, and to work with the U.S. Attorneys' Offices in those States. Then, if this concept works, we will try to build it into our budget process for fiscal year 1985. We are hopeful that this is going to result in better service to farmers and the other clients of the Department.

Senator COCHRAN. Do you know offhand how many new staff will actually have to be hired to provide lawyers in all of these offices?

Mr. BARNES. For the pilot project that we are working on with Farmers Home, we are talking a total of 24 people in the seven offices. For example, in the Jackson office, I think the direction from the committee was to put a lawyer there. We are looking at putting two lawyers and two staff people in that office. Some of the other offices will also have two staff lawyers; in a few of them, we will start with one lawyer and one staff person and see how that works.

Senator COCHRAN. Will they actually be housed in the Farmers Home offices in these different locations?

Mr. BARNES. We are setting them up in space in many cases contiguous to the Farmers Home office. I think it is important that we maintain the separate identity of the Office of General Counsel, so it is clear that those employees are responsive to me, but they are trying to serve the same role there that lawyers do elsewhere in the Department. Because it is a pilot project, we are trying to locate the office where there is access to a U.S. Attorney's library, so we don't have the significant kind of investment associated with developing a library from scratch.

Senator COCHRAN. Will they report to regional attorneys or will they report directly to the Washington office?

Mr. BARNES. The Jackson office will report to the Little Rock regional office. We will be transferring some of the workload from Little Rock. We are going to keep a close eye on the relationship from here. My deputy, John Noakes, has recently been spending an estimated two-thirds of his time on getting these offices started. For example, last week he was down in Jackson where he interviewed a number of prospective employees and worked with the Farmers Home State director. We really want to give attention from the top to getting these offices off to a good start.

Senator COCHRAN. Those offices aren't going to be limited just to advising Farmers Home, but they may have other responsibilities as well, as I understand it.

Mr. BARNES. Mr. Chairman, in terms of the pilot project, since we are contributing some resources, as is Farmers Home, we felt it was fair to put the focus on Farmers Home. I think eventually these offices will have the potential to serve other USDA agencies that are located there, but by far the biggest need at this time is in the Farmers Home area. That is where we will be concentrating our effort now.

RESPONSIBILITIES OF OGC

Senator COCHRAN. In the notes that were submitted to the committee, there is an impressive list of responsibilities of the Office of the General Counsel. I think they reflect in a very clear way the wide range of work and expertise that is required of the Office of the General Counsel. I will put in the record the list of responsibilities that you submitted in the explanatory notes. It might help convince some of the other committee members of the need to have an adequate level of funding for that office.

[The information follows:]

OGC RESPONSIBILITIES

The Office of the General Counsel is responsible for providing legal services for all activities of the Department. These services include: (1) The giving of opinions on legal questions arising in the administration of the Department's activities; (2) the preparation or review of rules and regulations applicable to the public; (3) the drafting of proposed legislation; (4) the preparation and interpretation of contracts, mortgages, leases, deeds, and other documents; (5) the prosecution of patent applications arising out of the inventions by the Department's employees; (6) the examination of the title to lands to be acquired by the Department or accepted as security for loans; (7) the consideration and determination of claims by and against the United States arising out of the Department's activities; (8) the representation of the Department in formal administrative proceedings; (9) the referral of cases to the Department of Justice; (10) assisting that Department in the preparation and trial of cases involving the activities of the Department of Agriculture; and (11) representing the Secretary of Agriculture and Commodity Credit Corporation before the Interstate Commerce Commission and the Federal Maritime Commission in proceedings involving freight rates on farm commodities and in appeals for the Commissions to the Courts.

BANKRUPTCIES IN AGRICULTURE SECTOR

Senator COCHRAN. There have been several rumors going around that there are a lot of foreclosures, pending bankruptcies, and forced liquidations out in the agricultural sector as a result of Farmers Home loans that can't be repaid and so forth. Do you anticipate a very large increase in activity and demands on your office as a result of that, or is that going to be at a fairly minimal level? Frank Naylor indicated the other day that he is estimating less than 3 percent of the Farmers Home loans will be foreclosed this year. I don't know if forced liquidations are included in those numbers or not. What is your experience to date with that?

Mr. BARNES. Mr. Chairman, the number of farm ownership and operating loans that are actually going to be foreclosed is fairly small. I think Mr. Naylor and Mr. Shuman have indicated that fact in their testimony. Obviously, some of the workload that is reflected in the figures I mentioned at the beginning of my statement includes various claim matters. Some of them would reflect rural home ownership loans that have gone bad. Some of them reflect situations where people have chosen to file for chapter 13 bankruptcy petitions. Some of the cases are bankruptcy liquidation. About one-half of our litigation workload are matters where we are being sued by other people. We have seen, and continue to see, an increase in litigation from that direction, which surprises me. I know we all thought we had a real explosion of litigation in the seventies—particularly challenges to government programs. We really hoped that trend had flattened out, but it continues to increase. It seems like every time we have a major new program or initiative, there are people who challenge us, and, frequently more than once. It is not unusual for us to be involved in eight or nine lawsuits out of a single action. For example, out of the dairy assessment cases we now have nine lawsuits. Last fall at one point we found ourselves defending eight TRO's in the case of two——

Senator COCHRAN. What are TRO's?

Mr. BARNES. I am sorry, they are temporary restraining orders. That is where you have to quickly gather together your case and get somebody out before a U.S. district judge someplace on sometimes literally a few hours' notice. That kind of thing puts a real strain on the resources of our office.

ROLE OF OGC AND THE U.S. ATTORNEY'S OFFICE

Senator COCHRAN. How do you go about sorting out the cooperation between your office and various U.S. Attorney offices around the country? Do they actually handle some of the litigation workload that involves the Department of Agriculture, or do you share responsibility in that area?

Mr. BARNES. Well, you start with the proposition that the Department of Justice is charged with representing the U.S. Government in all of the litigation in the Federal courts. From that, the U.S. Attorneys ask us to assist them on some cases. Sometimes, they make our people special U.S. Attorneys, where we basically appear in court and handle the matters from start to finish. As I briefly mentioned in my opening statement, we are finding, like in bankruptcy cases, U.S. Attorneys are just saying, "Look, you want to protect the Government's interest; you are going to have to handle it. We just don't have the resources in our office." So, in those cases we really have to take the ball and run with it.

In Washington, at the appellate level, the Department of Justice normally handles all appellate litigation. They have in recent years allowed us to handle some of the litigation affecting the Department in the Courts of Appeals. We have, in my judgment, a very fine group of lawyers who do appellate work for the Department, and it is really a chance to attract and keep good, able people to do what is some of the more challenging legal work in the Federal Government. It is really a mixture of responsibilities that gets worked out in different ways in different places between us and the Department of Justice.

RECRUITING AND STAFFING OF ATTORNEYS

Senator COCHRAN. Are you having good luck in finding and keeping good people in the office? I know a year or two ago we were talking about recruiting and staffing. You were losing some good lawyers to other government agencies or the private sector. Is that situation any different today?

Mr. BARNES. We still have some attrition. I frankly was very pleased by our recruiting efforts this last fall. We interviewed at about 12 law schools. We are bringing 12 new lawyers on board out of the 1983 graduating class. We have seven law students who will be joining us for the summer. With reference to the conversation we had last year, you will be pleased to know that one of our summer clerks is from Mississippi, as is one of the lawyers that we brought on fulltime. In fact, we feel very fortunate to have him. He clerked for Judge Coleman.

Senator COCHRAN. Right, he came by the office the other day and let me know he was here in Washington. I am glad to see you expanding the area of recruiting.

Mr. BARNES. I think as a responsible government agency we should try to draw people from across the country so that various regional perspectives are reflected in our office, and so that people from other parts of the country have a chance to come and help make the government work.

SUBMITTED QUESTIONS

Senator COCHRAN. I have some additional questions, Mr. Barnes, that I will submit to you in writing and ask that you respond for the record. At this time, however, I think we should move on to the Office of the Inspector General.

[The following questions were not asked at the hearing but were submitted to the Office of the General Counsel for response for the record:]

Questions Submitted by Senator Cochran

BUDGET REQUEST

The budget request for OGC reflects a $1.3 million increase over the amount provided for fiscal year 1983, including a pay increase supplemental. Generally, this increase appears to be spread over various object classes in your budget, and not concentrated in only one or two accounts.

Question: Is most of the increase directed toward personnel compensation?

Answer: No, a little less than half or 41%.

Question: How much?

Answer: The requested increase is $1,064,200 over the fiscal year 1983 adjusted base of $13,911,800. The $1,064,200 includes $53,000 for annualization of fiscal year 1983 pay cost increases and $379,000 for the 15 additional people requested for fiscal year 1984.

Question: I notice a $634,000 component for field office staff. Where will this expansion occur, and what will these additional staff be doing?

Answer: The $634,000 component for field office staff is primarily directed to those field offices where the high volume of loan activity and matters referred by client agencies have created backlogs and delays in handling the workload. The overall OGC caseload (all matters) has nearly doubled during the past two fiscal years, and developments since the original budget submission to the Secretary and to OMB have necessitated some revisions in this proposed assignment of personnel.

The requested seven legal positions and eight nonlegal positions, subject to further developments, are to be assigned as follows:

Atlanta Regional Office - one attorney and two support positions to respond to a significantly heavier workload in the southeastern states arising out of FmHA programs.

Chicago Regional Office - one attorney and one support position to expedite heavy FmHA and ASCS workload in that area.

Harrisburg Regional Office - one attorney and one support position to expedite heavy FmHA and ASCS workload.

Juneau, Alaska - one attorney and one support position to meet Congressional direction that an OGC office be established to handle increasing workload arising out of the National Forest system in Alaska.

Kansas City Regional Office - one attorney and one support position to handle increased workload referred by FmHA, ASCS and FCIC.

Little Rock Regional Office - one support position to assist handling of heavy FmHA workload.

Missoula, Montana - one attorney to handle heavy increase in legal matters referred by Regional Forester.

Stillwater, Oklahoma - one attorney and one support position to help handle Oklahoma workload for all USDA agencies in new office opened pursuant to Congressional direction.

Question: Your request includes $190,000 for word processing equipment, and automated legal research and case management systems. Does this need reflect an increased case load?

Answer: In part, yes. The proposed expenditure for word processing equipment continues the modernization of capabilities which has taken place in FY 1982 and FY 1983. There is a need to expedite the preparation of loan documents, civil action referrals, briefs and other court-related materials, which have dramatically expanded due to our increased caseload and to greater demands by the Department of Justice for our litigation assistance. Positive reactions to, and results from, the word processing equipment we have introduced over the past two years have resulted in requests from our Washington supervisors and our regional attorneys for installation of additional equipment. We are also planning a case control system and inter-office communications capability that should expedite the handling, assignment and supervision of cases in our office and in the offices of the U.S Attorneys.

Question: Where will the new equipment be located?

Answer: This equipment will be placed in or added to existing equipment in each of our seventeen field office locations as well as in our Washington, D.C. office.

Question: Considering the tremendous demand on your office for a myriad of legal sevices for all of USDA, is your budget request adequate to support staff needs in fiscal year 1984?

Answer: Yes. Our budget request adequately prepares us to respond reasonably promptly and in a professional manner to USDA needs for legal services in FY 1984. While our workload and the demand for our services is somewhat beyond our control, I believe that the requested resources will provide us with the capability to meet the demands we currently anticipate.

Question: Are you personally satisfied with the quality and quantity of the work produced by OGC?

Answer: Yes, I believe that overall the quality and quantity of work is quite satisfactory, and indeed outstanding in a number of areas. We enjoy excellent cooperation from the Secretary, the Assistant Secretaries and the USDA agencies and have received very positive feedback as to the quality of legal assistance they are receiving.

OGC RESPONSIBILITIES

I have read in your explanatory notes an impressive list of all the responsibilities of the Office of General Counsel. I think it accurately reflects how much and what kind of work is expected of you and your staff.

Question: Is there any major shift in responsibilities anticipated during the rest of fiscal year 1983 or during fiscal year 1984?.

Answer: Except for the reassignment of certain FmHA program services pursuant to a pilot program, a description of which is being provided to the Committee by separate letter, there are no present plans to shift responsibilities within OGC. In view of the expanding demands on our field offices, however, we will be closely monitoring the results of our pilot program and analyzing the work and accountability of our current field structure to make sure that it maximizes our ability to deliver legal services to the various USDA agencies in the field.

Question: I understand that a major portion of your work is done on a reimbursable basis for the Forest Service and for the Farmers Home Administration. How much financial support do these agencies provide OGC, and what services do you provide in return?

Answer: We do perform certain designated categories of work based on reimbursable accounts with the Forest Service and the Farmers Home Administration.

The Forest Service account concerns land acquisitions through use of the Land and Water Conservation Fund. Legal work performed by many of our field offices, and a minor amount of work performed in our Washington Office, is charged to that Fund on a reimbursable basis. For the current fiscal year, we estimate such costs will total slightly in excess of $600,000. We have agreed with the Forest Service to limit our charges to a maximum of $600,000.

Legal services for FmHA for which we receive reimbursement are limited to the work resulting from Emergency Loan programs. These loans are made available by FmHA when there has been a major disaster, a Presidential emergency, or a natural disater. Our estimate of the work to be charged to this program during FY 1983 is approximately $300,000. We have agreed with FmHA to a maximum of that amount.

Question: What percentage of OGC staff time is spent on those two agencies vis-a-vis the rest of the Department?

Answer: About 50% of OGC staff time is spent on Forest Service and FmHA work.

FIELD OFFICES

I notice that you have 17 field offices around the country, including 3 new offices to be opened during fiscal year 1983, as directed in the statement of managers accompanying the conference report in the fiscal year 1983 appropriations bill.

Question: Has the Jackson office been opened yet?

Answer: The Jackson office is expected to open on or about May 1, 1983. We have been obtaining space, interviewing personnel and taking other necessary steps.

Question: How many staff (professional and support) will be assigned there?

Answer: We expect to operate the Jackson office with one senior attorney, one junior attorney, a paralegal/administrative assistant and a clerk/stenographer.

Question: Where will they be located?

Answer: Adjacent to the FmHA offices in the Federal Building

Question: What will their duties include?

Answer: Temporarily, these offices will be devoted almost exclusively to counseling, loan assistance, debt collection, litigation and other matters administered by the Farmers Home Administration.

Question: Have the Stillwater and Juneau offices been opened?

Answer: The Stillwater, Oklahoma office was opened on February 28, 1983 and the Juneau, Alaska office is expected to open on or about May 16, 1983.

Question: What is their status?

Answer: The Stillwater office is functioning actively and is currently transferring files and most Oklahoma legal matters from the Temple, Texas Regional Office.

The Juneau office is in the process of locating space and staffing, by the transfer of an attorney experienced in Forest Service matters from our Washington office.

Question: Are there any closings or openings of field offices anticipated for fiscal year 1984?

Answer: There are no changes in our regularly constituted field offices expected in fiscal year 1984. By separate letter, however, we are furnishing the Chairman with the details of a pilot program which we are entering into with FmHA whereby a small number of additional field offices will be opened. This program is expected to have some effect upon the current responsibilities and the workloads of our field offices -- and will hopefully provide some guidance as to how legal services might in the future be most effectively rendered to USDA's field offices.

Question: Generally, what type of activities do field offices undertake? Is it mostly FmHA--related?

Answer: In our regularly constituted field offices, legal services are, with few exceptions, furnished to all regional offices of the Farmers Home Administration, ASCS, Forest Service, Food and Nutrition Service, FCIC, AMS and their related agencies and functions. Atlanta, Harrisburg, Stillwater, Hato Rey, Chicago and Little Rock perform predominantly FmHA-related services. Albuquerque, Milwaukee, Ogden and Missoula emphasize primarily Forest Service work. Portland, San Francisco, Denver and Kansas City have a more balanced workload.

Question: How many staff are currently in the field, and how does that compare with the number of headquarters staff?

Answer: Currently, the authorized headquarters staff totals 192 (55%), the field office 159 (45%). The relative size of the field staff has been increased in the last year and we expect this trend to continue.

FARMERS HOME ADMINISTRATION PROGRAMS

There has been considerable activity recently reported with respect to Farmers Home foreclosure proceedings and other actions.

Question: What role does your office play in foreclosure proceedings?

Answer: There are some exceptions but the general way in which OGC is involved in foreclosures involving monetary defaults is as follows:

After the Farmers Home Administration (FmHA) decides to foreclose on its real estate security, the FmHA State Office sends the matter to the appropriate OGC office for review. If the State is one in which FmHA forecloses nonjudicially, the OGC office will review the docket and then return it to the State Office with instructions on how to proceed to sell the property.

If the State is one in which judicial foreclosure is used, after reviewing the docket, OGC would then forward it on to the United States Attorney to bring a foreclosure action in court.

If FmHA bids at the foreclosure sale, the report on what occurred is sent via the State Office to OGC for review and advice on how to conclude matters.

Question: How many cases have you handled in fiscal year 1982 and this year in fiscal year 1983?

Answer: Our records indicate that in fiscal year 1982 our field offices referred 9,960 Farmers Home cases to the U.S. Attorneys' offices. The total number of FmHA items (loans, counseling, cases referred) was 72,473. In the first quarter (Oct-Dec), 1983, we referred 2,793 cases and handled 17,305 items.

Question: What number do you estimate in fiscal year 1984?

Answer: For fiscal year 1984, we estimate that we will refer 12,500 cases and handle 82,400 items. This estimate reflects increases in workload based on current trends, as well as the expectation that the new on-site state offices under the pilot program will generate more agency requests for service.

Question: What percentage of your office's time is spent in FmHA business?

Answer: During FY 1982, approximately 26.5% of OGC time was spent in FmHA work.

Question: Is all the expense of your services to FmHA reimbursed?

Answer: Only a minor portion of our expenses is covered by the reimbursable agreement with FmHA.

PAYMENT-IN-KIND (PIK PROGRAM)

Question: What, if any, role has your office played in the development and administration of the PIK program?

Answer: The Office of the General Counsel has been actively involved in the development and administration of the payment-in-kind program. Because of the importance of the payment-in-kind program, the office has devoted substantial resources to this effort over the last three months, including a substantial portion of the time of the General Counsel, Deputy General Counsel, and other senior members of the office staff.

As the Department's legal counsel, we have provided advice on numerous issues that have arisen in connection with the design and implementation of the program. We have also played a principal role in drafting the necessary regulations, contracts, announcements, and other legal documents.

ATTORNEY ATTRITION RECRUITMENT

We have discussed in prior year hearings the problems you have in losing good lawyers to other government positions or to the private sector.

Question: Does this attrition problem persist?

Answer: Attrition is the greatest at the three- to five-year experience level. By this time attorneys have progressed to the point where they have acquired specialized knowledge and experience and their capabilities have become known to outside employers who may offer higher incomes and/or more responsibility. At that time, some lawyers feel they have learned the "basics" and want to go into private practice. Personal reasons such as retirement, marriage, and the transfer of spouse to another location also result in some attorneys deciding to leave our offices. These losses do leave us with the need to regularly recruit new attorneys. Attrition is less of a problem in our field offices where regional loyalties and perhaps more limited alternatives help us to build experienced offices. Overall, I would not consider attrition to be a major problem. Each year we do lose some attorneys we would like to keep, at the same time, some attrition enables us to bring the talents, perspectives and enthusiasm of recent law graduates into our organization.

Question: What, if anything, is being done to address this problem?

Answer: We try to make our attorney positions attractive by the early delegation of responsibilities and by trying to involve new attorneys in important programs and litigation. Training and self-improvement are stressed. We also encourage an ongoing appraisal program and the early consideration of promotions when warranted.

Question: How many lawyer positions were turned over in fiscal year 1982 due to this type of attrition?

Answer: Through attrition we lost 15 attorneys in 1982: six attorneys left for other government jobs; three went into private law firms; and six retired.

Question: How are recruiting efforts progressing around the country?

Answer: Our recruiting program is very active. On an ongoing basis we interview applicants who indicate an interest in the office as well as attorneys who are referred to us. We also seek out attorneys with specified qualifications for particular openings. In addition each fall we actively recruit second and third year law students for summer intern and post-graduate employment. For example, in the summer of 1983 we will have seven interns and twelve 1983 law graduates coming into staff positions. We are very fortunate in being able to recruit high-caliber young attorneys with considerable potential.

Question: Where are you currently focusing your recruiting?

Answer: Law school recruitment last fall included Berkeley, UCLA, Hastings, Mississippi, Duke, North Carolina, Harvard, Minnesota, Michigan, Florida, Columbia, Indiana, Texas, Syracuse, Pittsburgh, Cornell and Georgetown. Each year we make some adjustments in the list of schools we visit. Recruiting for our field offices commonly focuses on the area around the field office. We believe it is important that a Federal agency like USDA actively seek employees from all sections of the country.

FOOD STAMP TRANSFER

Each year, a sum of money is transferred to OGC from the Food Stamp program to cover expenses associated with Food Stamp program legal work requirements.

Question: The amount of transfer in your budget request is $628,000 -- the same as in fiscal year 1983. Is that amount sufficient to pay for the work you do for that program?

Answer: The request in the President's budget that $628,000 be transferred from the Food Stamp program appropriation to the Office of the General Counsel appropriation is sufficient to pay for the services we provide to that program.

Question: Is that transfer handled in a separate accounting manner, or simply co-mingled with other OGC activity and program funds to be expended as budgeted?

Answer: The funds transferred from the Food Stamp program appropriation to the Office of the General Counsel appropriation are not maintained in a separate account. Instead, they are merged with other Office of the General Counsel funds and included in a single integrated budget and spending plan for the Office of the General Counsel.

OIG BUDGET REQUEST

Senator COCHRAN. Mr. Graziano, I know your request reflects an increase of $1.5 million, and $538,000 of that is identified as "operational costs" and $884,000 is estimated for automated data processing and computer matching. What are the other "operational costs?"

Mr. GRAZIANO. Well, we have increases in travel, per diem, and the cost for operating our offices which have accrued to us. As for the increases in per diem, our people spend between 60 and 80 percent of their time on the road, and per diem cost increases have to be reflected in our operating budget.

EEO CONTRACTS

Senator COCHRAN. I see also that the budget request reflects a decrease of $470,000 for equal employment opportunity complaint appeals investigations. Does this mean there won't be any investigations or there won't be any work done in this area? What is the reason for that decrease?

Mr. GRAZIANO. At the present time, we are contracting out the EEO investigations to outside contractors. The EEO investigations are being conducted as they have been in the past. In addition, we have a reimbursable agreement with the operating agencies that they pay for the cost of their EEO complaint investigations. In the past, we used our criminal investigators to conduct EEO investigations, and it was an operational problem because we were required to begin the EEO investigation within 30 days after receipt. We would have to take people away from some of our other priorities, including criminal investigations, in order to begin EEO investigations. We were never provided funding for EEO cases. So the procedure we now follow is one which permits us to conduct EEO investigations and have them reimburse OIG.

GOOD INVESTIGATIVE RECORD

Senator COCHRAN. There are some impressive statistics in the statement that has been submitted by you to the committee. The explanatory notes also set forth the number of investigated reports and the fact that your investigations have resulted in 1,390 indictments, 856 convictions, 300 fines levied, and the conviction rate in criminal matters is 90 percent. That looks like a good record. I think that is impressive.

Mr. GRAZIANO. Thank you.

Senator COCHRAN. Are you satisfied with the level of staffing that you have? Are you able to do the work that you have been assigned?

Mr. GRAZIANO. Well, Mr. Chairman, we are constantly reviewing our priorities, and we try to reflect our priorities by placing our staff in those areas where there is the largest impact on operations. You can always use more people, but in the development of our cases and audits we think we are addressing the departmental priorities.

CCC MONETARY RECOVERIES

Senator COCHRAN. For instance, I see, too, that 183 investigation cases issued for the ASCS resulted in monetary returns exceeding $10 million. Is this money that has been paid back to the Government in fines or restitution? How is that calculated?

Mr. GRAZIANO. Mr. Burke will respond to that question, if he may.

Mr. BURKE. Last year, Mr. Chairman, in ASCS, which is where CCC is, we got $1.7 million in recoveries. These are hard dollars.

Senator COCHRAN. What kind of cases are these?

Mr. BURKE. Across the board. We have conversion cases, which have swung up a little bit. The conversion case is a case where the farmer or business entity puts up collateral, then borrows money on it, converts the collateral to cash and doesn't tell us, doesn't tell Farmers Home Administration or ASCS. We go back out and find the collateral, or find the party responsible for the collateral, take them to court, and get the money back. They go across the board, emergency disaster loans and things of that nature, where double-dipping occurs, to the extent where they get an emergency disaster loan from USDA and they also get one from the Small Business Administration. There is a whole series of different ways you can track money from USDA through various ASCS, Farmers Home Administration loans, and other programs.

To go on, we have almost $1,994,000 in collections, again across the gamut of the various cases. We had $89,000 in fines through the various cases, court presentations, court fines, and we have $7 million in claims established. These are where we put forth an investigation, and it shows the agency that the individual owes USDA the money. The case may or may not be going through the judicial process, and we establish a claim against the individual. It may or may not be collected down the line; it depends on the administration of that case and the agency. We usually do very well on those, too. We consider those not to be soft dollars, because it will come into a hard dollar, but we may not get every one of those dollars until the next year or the following year.

AUDIT ACTIVITIES

Senator COCHRAN. What kind of cases does your shop handle, Mr. Adkisson?

Mr. ADKISSON. We cover audits of all the 33 agencies within the Department. In ASCS, for example, we are in the process of up-front monitoring of the implementation of the PIK program. We have some 50 auditors out in the county offices on that today. We feel that our preventive approach, if we can find the problems and get them corrected before any grain is delivered to the farmer or, if there is any storage payment that is to be made to the farmer, if we can identify those problem areas and get ASCS to correct those items before the money or the grain is disbursed, it saves a lot of problems. It saves Mr. Burke an investigation. It saves Mr. Barnes a case preparation for court. These are the kinds of audits that we are trying to move into, as opposed to after the fact, going out next year and saying, "We got you; you should have been paid $2, and you were paid $5; now give $3 back." We think we can be much more productive if we can get out when the program is being developed.

Senator COCHRAN. You have some 50 people who will be assigned to this type of monitoring; is that what you said?

Mr. ADKISSON. Yes, sir.

DEPUTY INSPECTOR GENERAL'S RESPONSIBILITIES

Senator COCHRAN. Mr. Gabriel, what kinds of activities are you responsible for?

Mr. GABRIEL. Well, I serve as Mr. Graziano's deputy and assist with the overall management of the audit, investigations, and our special operation functions. In addition, I give direction and leadership to our analysis and evaluation group which is tied in with the fraud prevention program. This program is primarily directed at overseeing the implementation of the Financial Management Integrity Act, which is recent legislation designed to strengthen internal controls within the Federal Government. We think the cause-effect relationship hurts the Government when fraud occurs. Fraud usually results from a breakdown in internal controls, such as involving authorization and accounting systems.

One of the key things we accomplished in the Department was in the specific area of the vulnerability assessments that were required by OMB Circular A-123. Each constituent agency was to complete a vulnerability assessment by December 31, and we provided the leadership and guidance. In effect, the assessments were a management disciplining process, where the program people took a look at themselves to see if they were vulnerable. These are some fraud prevention examples we have been doing.

SIGNIFICANT ACCOMPLISHMENTS

Senator COCHRAN. What do you think some of the most significant accomplishments in your investigative work were this last year? Was there any highlight for the year?

Mr. GRAZIANO. Well, Mr. Chairman, we feel that there were a number of investigations which were significant because of their impact. For example, a number of our computer matching projects were also tied into programs of other agencies such as HUD, HHS, and the Department of Labor where people were obtaining benefits from several departments and agencies, and by computer matching techniques we were able to discover people who were overclaiming benefits and understating incomes. We thought matching had a very salutary effect, because in some cases where publicity came about as a result of our computer matching and the announcement of a number of indictments, people voluntarily came forward and asked to be dropped from the food stamp rolls or from some of the other programs. We intend to proceed at an escalated rate in the future in using computer matching techniques in addressing the problem of fraud in some of the benefit programs.

We have had several investigations of significant impact, one of which we reported in our submission regarding the importation of meat from foreign countries. We maintain an overview since there is a continuing problem with the equal-to-or-better provision for meat inspection plants in other countries. During the last year, we stopped the importation of meat from one country in Central America while we addressed the problems of their inspection system. We also indicted a number of people in Miami who were connected with the exportation in Central America, who operated a firm in the United States, and who were introducing unwholesome meat into the domestic channels. We have done a similar investigation which led to indictment of some domestic producers who were trying to introduce unwholesome meat, some of which was from cancer-eyed cows, into the system. We believe it is an investigation in which the USDA is providing adequate surveillance of the products that are coming into the domestic channel. The dollar figures are not very impressive in these types of investigations, but the impact on the confidence of the American public in our system is a major concern.

SETTING PRIORITIES

Senator COCHRAN. I am sure that there may be a tendency at times to go after those cases that do end up bringing in the big dollar numbers, because that is always impressive to see. You do have to balance those interests that you have. Are you the person who ends up making those decisions, or are you sort of a free agent in terms of making decisions like that?

Mr. GRAZIANO. Yes, sir, we assign our priorities within the Office of the Inspector General as to the type of investigations and the program areas. Of course, we are always cognizant of the Department's direction, the programs which have great visibility, such as the food stamp program, and some of the other programs.

Senator COCHRAN. I notice in your notes you mention that there were over 1,000 individuals cited for violations in the food stamp program, a big increase over last year. So, there was a good deal of emphasis placed on that.

Mr. GRAZIANO. Yes, sir.

Senator COCHRAN. I suppose if you added up the dollars in these food stamp cases, as Mr. Burke pointed out, there would be a tremendous amount of evidence that the investment that we make in the Office of the Inspector General really pays big dividends to the Government.

Mr. GRAZIANO. We believe we are very cost effective, Mr. Chairman.

OIG APPROPRIATIONS VERSUS MONEY SAVED

Senator COCHRAN. How would you compare the amount of money that is appropriated for your office in comparison to the dollars actually either saved by the Government or resulting in fines or other monetary return to the Treasury?

Mr. GRAZIANO. Mr. Gabriel is anxious to respond to that one.

Mr. GABRIEL. I just wanted to say, sir, in the opening statement we have identified the fines and penalties at $20 million resulting from investigations, and we have another hard number in there of $94.6 million referred for recoveries from audits. I feel these two numbers together, about $114 million, compare very favorably with our overall request.

Senator COCHRAN. It is about 10 to 1; isn't it?

Mr. GABRIEL. I will be adding in the FNS transfer. So, comparing monetary accomplishments to the overall $44,579,000—our total budget request—that will be, I believe, about 2.75 to 1 or about 3 to 1.

SCHOOL LUNCH PROGRAM

Senator COCHRAN. Has there ever been any effort to do any computer matching in the school lunch program? Recently, FNS started a system whereby parents have to list a social security number, and they have suggested that this has decreased the number of applications from persons who really weren't eligible for free or reduced school lunches because of income or assets. Has there been any effort to do that or is that being done on a random sample audit by FNS?

Mr. GRAZIANO. At the present time we are not doing any computer matching in the school lunch program, but we are in the special feeding programs.

Senator COCHRAN. Is this the WIC program or summer feeding program?

Mr. GRAZIANO. It is the after-school program.

Mr. BARNES. Mr. Chairman, I might add that the Food and Nutrition Service has just recently come out with some regulations that require the local school districts to engage in matching or verification. I believe it is 3 percent or 3,000, whichever is less, of the number of those school lunch applications. Some of that effort will be done through the people that administer the school lunch program at the State and local level.

Mr. GRAZIANO. Mr. Chairman, Mary Jarratt, Assistant Secretary for Food and Nutrition, indicated that the new application forms will result in 10 percent fewer applications approved for free meal benefits in schools, and about 15 percent lower in schools using the newer applications as compared with schools using the prior year's application. It would be premature to examine it at this point; however, we do plan to look at it later.

COMPUTER MATCHING RESULTS

Senator COCHRAN. I thought it was interesting when you made the observation that your computer matching has resulted in people coming in and saying we are not entitled to this. It reminds me of the story about a fellow who wrote a letter to the Internal Revenue Service and said, "I really do have trouble sleeping at night. I am enclosing a check for $300. I really feel I owed taxes last year. If I find I still have trouble sleeping, I may send more later." [Laughter.]

SUBMITTED QUESTIONS

I appreciate very much your being here. If any other questions occur to us, we will submit them to you and ask that you respond in writing. We appreciate very much your cooperating with the committee. Thank you.

[The following questions were not asked at the hearing but were submitted to the Office of the Inspector General for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FNS TRANSFER

Question: You are also requesting the same amount as provided in fiscal year 1983 for the transfer from the Food Stamp Program. Will this level affect your ability to adequately scrutinize food stamp activities?

Answer: The amount requested, including the transfer from the Food and Nutrition Service will be sufficient to sustain our effort to reduce fraud and waste in the Food Stamp Program.

FOOD STAMP PROGRAM IN PUERTO RICO

Question: Your office recently reported that the Puerto Rico "cash-in-lieu of food stamps program" is working efficiently. Would you please elaborate on this report, and explain how you reached this conclusion?

Answer: Our early assessment of the Puerto Rico block grant Nutrition Assistance Program found that implementation has been encouraging. Improved monitoring of recipient eligibility and the use of more stringent eligibility standards have reduced household participation by 16.5 percent from June 1982, the last month the coupon Food Stamp Program was in effect, to November 1982, the date of our initial review. The use of a high security type of check to disburse program benefits allows its use to be traced and reduces the opportunity for falsification. Initial program statistics show that 90 percent of the program checks were cashed at food stores while less than 0.2 of 1 percent were reported lost or stolen, cancelled, or stopped for payment. It will, of course, take additional time to measure the impact of the block grant approach on the nutritional health of participants. Based on our review of the internal and external controls in place, we believe the program can be efficiently operated.

COMPUTER MATCHING

Question: I understand that "computer matching" has become one of the Office of Inspector General's most effective audit tools for detecting fraud and waste in the Food Stamp Program.

What does "computer matching" involve?

Answer: We have used computers in conjunction with statistical sampling methods to match the income reported by food stamp recipients with wage history files maintained by the States. For those recipients with potentially underreported income, employers are contacted to verify actual income for specific periods for comparison with reported income for the same period. Where significant differences are found between reported and actual income, our investigators examine the cases for possible fraud prosecution.

Question: Do you realize any cost effectiveness as a result of this activity?

Answer: Most of our efforts to date have involved the detection of recipients with underreported income and the results indicate the technique is very cost effective. However, until the cycle of matching is complete, to include identifying recipients who are overpaid or ineligible for benefits, reducing or terminating the benefits for these recipients, and completing claims actions and fraud prosecutions, the total costs and recoveries cannot be established. The total costs are needed to establish a true cost/benefit relationship.

RESULTS OF FOOD STAMP INVESTIGATIONS

Question: In your explanatory notes, you mention that OIG conducted many investigations of violations of the Food Stamp Program, and that 1,170 individuals were indicted for violations -- a 46 percent increase over last year. What was the dollar loss caused by these violations? Have any recommendations and changes been made to avoid similar losses in the future?

Answer: We cannot accurately identify the dollar loss connected to Food Stamp investigations. Most of our investigations concern food stamp trafficking but we have no way of measuring the amount of fraud which occurred prior to our investigation. We do, however, track monetary results directly related to our investigations. For FY 1982 as a result of OIG Food Stamp Program investigations we obtained the following results:

Recoveries	$ 491,103
Collections	18,641
Claims established by USDA Agencies	1,537,936
Fines imposed	565,249
Total	$2,612,929

We have made numerous recommendations to FNS and to the Congress to correct program weaknesses observed during investigations and audits. Among those recommendations have been computer matching of eligiblity data, better recipient identification, first endorser liability of coupon issuers, tighter replacement guidelines, mail loss tolerance, elimination of wholesaler participation, and high administrative penalties. In addition, we work with individual States to correct deficiencies.

INVESTIGATIONS RESULTING IN CONVICTIONS

Question: For fiscal year 1982, your explanatory notes indicate that OIG issued 971 audit reports and 2,232 investigative reports. Your investigations resulted in 1,390 indictments, 856 convictions, 19 suits filed, and 300 fines levied. Your overall conviction rate in criminal matters is stated as 90 percent.

Does this conviction rate percentage include plea bargaining? Please differentiate.

Answer: Yes, the disposition of appropriate cases pursuant to plea arrangement between defendants and government attorneys is a normal procedure. We do not separately track plea bargaining and cases which go to trial.

Question: Categorically, and by percentage, what type of crimes have resulted in convictions?

Answer:

Food Stamp recipient fraud	24%
Food Stamp trafficking	44%
Non Federal employees	3%
Other FNS Programs	6%
Meat Inspection	2%
Loan Programs (FmHA & ASCS)	7%
Price Support	6%
Other, personnel type cases	8%
	100%

Question: What were the basis of the 19 civil suits filed?

Answer: This kind of information is only retrievable through the individual case file. However, the majority of our civil suits are based on false claims made against the Department of Agriculture.

WOMEN, INFANTS, AND CHILDREN PROGRAM

Question: What are the findings in your recent audit of the WIC Program administered by one state's (unnamed) department of public health?

Answer: The significant conditions that we found needing corrective action are summarized as follows:

> The local agencies had on hand unobligated prior year's Women, Infants, and Children (WIC) Program funds totaling $4,396,594. This allowed the State agency to accumulate an unobligated -- unencumbered -- fund balance in the WIC Program. In addition, the State agency advanced funds to many local agencies in excess of the local agencies' immediate disbursement needs which resulted in 14 of the 15 local agencies reviewed having excessive advances on hand totaling over $566,234.
>
> The State agency's financial management system did not have sufficient internal accounting controls to enable management to report accurate financial data for fiscal years 1977 through 1979. Because of this condition the State agency reported and drew-down from the Letter of Credit $1,526,668 in unallowable and unsupported costs for fiscal years 1977 through 1979, and overstated the WIC Program costs $496,788 for fiscal year 1980 and understated program costs $499,789 for fiscal year 1981.
>
> The State agency paid WIC Program vouchers totaling $322,735 to vendors in fiscal year 1980 without reconciling the food instruments redeemed by the participants with the invoice vouchers submitted by the vendors. As a result, the State agency paid for food which could not be supported with food instruments.
>
> The State agency accumulated excessive cash balances -- averaging $595,710 in November 1981 -- in the State treasury's account because of inadequate procedures to ensure that Federal funds were withdrawn only when needed to pay immediate expenses.

PRESIDENT'S COUNCIL ON INTEGRITY AND EFFICIENCY (PCIE)

Question: I also understand that OIG is the lead agency in the President's Council on Integrity and Efficiency. What does the Council do, and what are the results so far?

Answer: The Council provides a forum for the interchange of ideas, concepts, and approaches within the Inspectors General community. Areas of Government-wide concern are identified, a lead agency is designated, and a coordinated audit effort is performed under the Council's auspices. At the completion of a review, the lead agency issues a summary report and each OIG involved in the project issues a report to its respective agency. The results of the PCIE projects have been very beneficial in identifying fraud, waste, and mismanagement within the Government and the need for corrective action. Some examples include: wasteful and abusive practices in handling and accounting for Government property in the possession of contractors or grantees; the need to strengthen management of recipients' practices in the draw down of funds against letters of credit; and the need to review and eliminate unliquidated obligations when no longer valid or viable.

Question: What specifically is OIG's role?

Answer: OIG is the lead agency on two PCIE projects; (1) Use of False Identification in Federally Assisted Benefit Programs, and (2) Underreporting of Income in Federally Assisted Benefit Programs. Our specific role varies with each PCIE project. We may serve as the lead agency; one of the participating agencies, in which case we perform an audit of USDA agencies in conformance with the prescribed PCIE format; or we may provide technical assistance in the development of the approach and procedures to be used in the PCIE project.

EEO CONTRACTS

Question: Your budget request reflects a decrease of $470,000 for EEO complaint appeals investigations. I understand that your proposal is to contract out to private sector investigators EEO complaints you have previously investigated internally. Are you confident that the EEO rights of personnel will be adequately protected under the new arrangement? Please explain how you calculate that savings will result?

Answer: We are fully confident that the EEO rights of personnel will be adequately protected insofar as the competency and thoroughness of the investigative process is concerned. When a contractor completes the investigative field work and prepares a draft, the draft is submitted to our Contract Investigations Branch for review to determine if the investigation as such is thorough and complete in all respects, and provides all of the information which appropriate officials need to determine whether discrimination did in fact occur. If the draft is satisfactory it is returned to the contractor for issuance of the finished report; if not, it is returned with instructions for corrections and/or additional field investigation.

The savings is at the Departmental level. It is realized by those agencies that are reimbursing OIG for the conduct of their employees' EEO complaint appeals investigations, not by OIG. Previously the average cost for OIG to conduct such an investigation in-house amounted to approximately $5,600 in 1979. Since we have begun competitively contracting out this work, the average cost to contract out the investigations is $3,000, a savings of $2,600 each. Based on our experience we estimate we would be receiving approximately 180 cases each year which would calculate out to a combined savings to other agencies of the Department, not to OIG, of approximately $470,000.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

Question: A nationwide audit of FmHA's Business and Industrial Loan (B&I) program has reportedly produced some negative results. Could you provide an account of those findings for the subcommittee?

Answer: Our audit focused on two major topics: (1) borrower liquidations, and (2) the status of the activity loan caseload. We identified 251 loan accounts in the process of liquidation with original loan principal of $214.2 million, and 144 liquidated loan accounts with original principal of $77 million. Losses on the 144 liquidated loan accounts amounted to nearly $40 million, or 51.8 percent of original principal. We selected random samples of loan accounts to be audited -- 30 of 144 liquidated loan accounts and 300 of 3,145 active loan accounts.

The audit of liquidated accounts found problems in liquidation processing and servicing that directly or indirectly increased Farmers Home Administration's losses by $6.8 million. Some were direct losses, as in the case of ineligible expenses claimed and unreported or misused liquidation proceeds. The largest losses, however, were in the areas of inadequate collateral, unaccounted for collateral, misuse of loan funds, and unaccounted for use of loan funds. We believe that these could have been avoided had servicing and liquidation actions been conducted more efficiently and economically.

We estimated $22.7 million of the $39.9 million total losses were caused by problems in liquidation processing and servicing. These losses occurred in an estimated 122 of the 144 accounts liquidated to date. Following are our major findings:

> Enforceability of Guarantees: FmHA has no procedure for reviewing the enforceability of loan guarantees. A procedure was needed to prohibit paying losses caused by lender negligence or lender's failure to perform contractual loan servicing responsibilities. In 19 of the 30 loan accounts audited, we found conditions which could have been used to render FmHA's guarantees partially or totally unenforceable. These included inadequate and unaccounted for collateral, as well as misuse and unaccounted for use of loan funds.
>
> Preliquidation Servicing: FmHA instructions require the lenders to service business and industrial loans. They are responsible for seeing that proper and adequate collateral is obtained and maintained and that records are kept to protect lenders, holders, and the FmHA. Our audit did not uncover one case of preliquidation servicing in which a lender had obtained

additional collateral or other security when other loan delinquencies and adverse conditions made the need apparent. In fact, servicing actions taken by lenders often diminished FmHA's security position.

Liquidation Plans: Liquidation plans submitted by the servicing lender in 26 loan accounts audited failed to provide adequate internal controls over liquidation processes. We found that plans had either not been submitted or submitted late. Many plans included inadequate asset lists and/or appraisals. Many did not adequately address liquidation costs and protective advances by amount, type, classification, or eligibility. Finally, we found that plans contained inadequate proposals for disposing of collateral. We are 95 percent confident that inadequate internal control existed in 122 of the 144 liquidated loan accounts.

Liquidation Servicing: Twenty-one lenders had not adequately serviced loan accounts during liquidation. We found problems in protecting collateral at auction, pursuing personal or corporate guarantees, making transfers and assumptions as a means of liquidation, misusing liquidation sale proceeds, and delaying the liquidation process.

Postliquidation Audits: Farmers Home Administration had not conducted adequate postliquidation audits in 25 of 30 liquidated accounts that we audited. Farmers Home Administration had already reviewed and paid losses to lenders, yet we found total dollar discrepancies of $6.8 million, including $4.1 million that we consider recoverable or potentially recoverable. Our best estimate is that $15.3 million is potentially recoverable in 105 of the 144 liquidated loan accounts.

We concluded that these deficiencies resulted because procedural and regulatory guidelines were inadequate and because underqualified personnel were employed in key positions. Additionally, FmHA did not identify in an efficient and timely fashion those loan accounts that needed servicing.

We made recommendations for regulatory and procedural changes that would strengthen FmHA controls over liquidation actions and improve FmHA identification and management of delinquent and problem loan accounts. They include a recommendation that FmHA refer liquidation losses to the Office of Inspector General for audit of loss claims.

In response to our audit, FmHA stated that it will implement new State office procedures to determine the enforceability of guarantees, and that it will establish policies to protect collateral. FmHA replies that it has developed handouts for lenders to use in liquidation cases and has made other program changes.

FOREIGN MEAT INSPECTION

Question: An OIG audit has concluded that the Food Safety and Inspection Service's (FSIS) Foreign Meat Inspection Program has weaknesses in its control measures designed to ensure the integrity of meat and meat products entering the U.S. What OIG recommendations were made, and what, if any, changes have been made by FSIS?

Answer: The following 10 recommendations were made in our August 1981, report entitled FSIS Foreign Meat Inspection Program:

1. Take action to improve the recording of Foreign Program Officer observed conditions of meat plant operations - specifically, the addressing of areas necessary for determining equal to status.

2. Take necessary measures to strengthen sample selection procedures and controls.

3. Take action to improve import inspection operations in Puerto Rico.

4. Inform all field units about the availability of weekend mail service for meat samples and encourage its use for better turn around results and control of imported meat products.

5. Periodically review laboratory reports to determine the extent of delays in the sample process. Research causes and issue corrective action to minimize future occurrences. Also, review USDA laboratories' workload to determine an equitable workload distribution.

6. Prepare refused entry notifications in a proper and timely manner after the port-of-entry inspection and promptly record the information in the AIIS system for the purpose of establishing and/or updating the exporting country's compliance history.

7. Timely and formally notify appropriate exporting country authorities, importers, customs, and Foreign Program Officers of the entry decision.

8. Take necessary measures to assure proper and timely distribution of refused meat products.

9. Instruct MPIP field units to seek cooperative efforts with U.S. Customs inspection officials in assuring refused meat products are properly labelled while in U.S. custody. This includes the labelling of all affected containers.

10. Insure that when a supervisory review of field operations is made, the report about observations and conditions include all areas pertinent to the determination of wholesome meat products.

FSIS responded positively to the subject audit and indicated corrective action had been taken or was planned on each of the recommendations. However, subsequent incidents involving illegal imports from Australia and Costa Rica and irregularities at the port of Miami raised additional questions about the USDA system for controlling imported products and FSIS's procedures that rely on U.S. Customs Service. OIG worked with FSIS on a joint Board of

Inquiry which recommended actions for strengthening the Agency's import inspection controls both in foreign countries exporting meat to the U.S. and at ports of entry in this country. FSIS adopted all of the Board's recommendations and incorporated them as a part of their action plan. When the Department was confronted with unacceptable imported meat entering the domestic market from Central America, OIG and FSIS again worked together to investigate the causes. This investigation resulted in Costa Rican plant delistments and indictments of plant owners and other individuals.

In 1982, GAO completed field work on an audit of FSIS foreign and import inspection procedures. GAO is expected to recommend many of the same procedural and management changes recommended by OIG. FSIS has informed GAO that it has established a separate organization reporting to a Deputy Administrator for International Programs to give increased management attention to import problems. FSIS has reported that it has undertaken a multi-phased organizational, procedural and systems update to the foreign review and import inspection programs. Unexpected delays were encountered due to the need to divert resources to deal with first the Australian and then the Central American crises. However, these improvements are reported as underway. Currently, OIG plans to perform a followup review of FSIS meat import inspection activities in about six months after the GAO report is officially released to the Department.

FEDERAL CROP INSURANCE CORPORATION

Question: An audit performed by OIG resulted in your recommendation that FCIC change its premium billing procedure. What specific changes are being recommended and why? Are these recommendations being implemented?

Answer: We recommended, in part, that FCIC bill the premiums as due and payable at the time liability attaches on the insured crop. Since liability attaches at the time of planting, this would represent the earliest possible billing date. In FCIC's response to the subject audit, the manager stated that bills for 1983 crop year premium would be prepared as acreage reports were processed and would be rendered not earlier than June 1 for fall planted crops and not earlier than September 1 for spring planted crops; if paid within 30 days, no interest would attach; and if not, it would be assessed at the rate of 1.25 percent per month.

SUBCOMMITTEE RECESS

Senator Cochran. The next hearing of the subcommittee will be next Tuesday, April 5, at 9:30 a.m., in this room. At that time, we will be hearing from the Food and Nutrition Service and the Human Nutrition Information Service. Until then, the subcommittee stands in recess.

[Whereupon, at 11 a.m., Tuesday, March 24, the subcommittee was recessed, to reconvene Tuesday, April 5, 1983, at 9:30 a.m.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, APRIL 5, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:33 a.m., in room SD-138, Dirksen Senate Office Building, Hon. Thad Cochran (chairman) presiding.

Present: Senator Cochran.

DEPARTMENT OF AGRICULTURE

FOOD AND NUTRITION SERVICE

HUMAN NUTRITION INFORMATION SERVICE

STATEMENTS OF:
- MARY C. JARRATT, ASSISTANT SECRETARY FOR FOOD AND CONSUMER SERVICES
- ROBERT E. LEARD, ADMINISTRATOR, FOOD AND NUTRITION SERVICE
- ISABEL WOLF, ACTING ADMINISTRATOR, HUMAN NUTRITION INFORMATION SERVICE

ACCOMPANIED BY:
- GEORGE BRALEY, DEPUTY ADMINISTRATOR, SPECIAL NUTRITION PROGRAMS
- VIRGIL CONRAD, DEPUTY ADMINISTRATOR, FAMILY NUTRITION PROGRAMS
- ROBERT RIZEK, DIRECTOR, CONSUMER NUTRITION DIVISION
- CATHERINE WOTEKI, CHIEF, FOOD AND DIET APPRAISAL RESEARCH GROUP
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, USDA
- JERRY BOLING, FNS BUDGET OFFICER

SUBCOMMITTEE PROCEDURE

Senator COCHRAN. The subcommittee will come to order.

This morning, the subcommittee will devote its attention to the budget requests for the Food and Nutrition Service and the Human Nutrition Information Service. The programs represented here today are under the direction of the Assistant Secretary for Food and Consumer Services.

FOOD ASSISTANCE PROGRAMS

The Food and Nutrition Service administers several food assistance programs designed to provide access to a more nutritious diet for families and individuals with low incomes and to encourage better eating habits among children. Its activities consist of: The child nutrition programs, including the national school lunch, school breakfast, summer food service, and child care food programs; the special milk program; the special supplemental food program (WIC); the food stamp program; and the food donations program.

Over 40 percent of the President's request in this subcommittee's bill is for these nutrition programs.

Several major legislative proposals may possibly have a bearing on the amount provided for these programs by the Congress for fiscal year 1984. The administration is proposing a general nutrition assistance grant program to replace the school breakfast, child care food, and summer feeding programs. Similarly, a number of proposed legislative changes in the food stamp program would result in sizable savings, if enacted. The President is also requesting that the elderly feeding program be transferred to the Department of Health and Human Services.

Should any of these legislative proposals be enacted, the subcommittee will certainly consider the guidance of the authorizing committee in developing recommendations for appropriated levels. However, until those changes come about, the subcommittee intends to scrutinize these programs carefully and to provide funding that will adequately support these important nutrition programs, on which millions of Americans rely.

For the nutrition programs administered by FNS, the President is requesting $13.6 billion for fiscal year 1984, a decrease of $1.5 billion from last year's levels.

The Human Nutrition Information Service is responsible for making the public generally more health-conscious by improving understanding of nutrition, by sharing information about the nutritional qualities of food, and by serving as a clearinghouse for information about food and human nutrition. The budget request for this agency is $6.6 million, down $1.6 million from the amount provided last year.

I want to welcome to the subcommittee Mary Jarratt, Assistant Secretary for Food and Consumer Services. She is accompanied by Robert Leard, Administrator of the Food and Nutrition Service; Isabel Wolf, Acting Administrator, Human Nutrition Information Service; as well as Bob Sherman, our faithful and ever-present budget officer.

We will make your prepared statements, which you have submitted to the committee, a part of the record in full and ask that you present highlights or brief summaries of them so we will have an opportunity for some discussion.

[The statement of Ms. Jarratt follows:]

STATEMENT OF MARY C. JARRATT

Mr. Chairman, members of the committee, I am pleased to have this opportunity to speak to you today on the 1984 Budgets for the Food and Nutrition Service and the Human Nutrition Information Service.

With me today are Mr. Robert Leard, Acting Administrator of the Food and Nutrition Service, and Ms. Isabel Wolf, Acting Administrator of the Human Nutrition Information Service.

Mr. Chairman, as you well know, the programs administered by the Food and Nutrition Service offset the direct effects of the economic situation for the millions of our citizens who need our help. The Congress has targeted the programs to those most in need of our compassion and support. They are largely means-tested with the income and financial situation of the recipient being the primary criteria for eligibility. Because of this, we must concentrate our efforts to simplify and verify applications at the point of certification.

The programs, by their nature, are very sensitive to the conditions of the economy, and the budget reflects the prospects for better times. As the pressures to expand these programs decline, we need to attack waste, fraud and abuse and remove unnecessary burdens on the States so they can reduce errors. The President's Budget for 1984 is designed for that purpose.

The work of the Human Nutrition Information Service is also important, because it enables the Secretary to monitor the effects of our agricultural economy on the nutritional well-being of the Nation and to take steps to see that research-based information on nutrition is conveyed to the public in a meaningful and responsible manner.

Ms. Wolf and Mr. Leard will provide more details on the budget and our legislative proposals. We will be glad to answer any questions the committee might have.

BIOGRAPHICAL SKETCH OF ISABEL D. WOLF

Isabel D. Wolf was appointed Acting Administrator of the Human Nutrition Information Service on February 24, 1983. Prior to this appointment, she served for 1 year as Director of the Office of Consumer Advisor at USDA.

Wolf received a master's degree in food science and nutrition from the University of Minnesota and a bachelor's degree in chemistry from Simmons College, Boston.

Wolf came to USDA from the Department of Food Science and Nutrition at the University of Minnesota where she had served as an associate professor and extension specialist for 10 years.

Senator COCHRAN. Senator Stennis, who is a member of the subcommittee, has another commitment this morning and is not able to attend the hearing. He has, however, prepared a statement and has asked that it be inserted in the record.

[The statement follows:]

STATEMENT OF SENATOR JOHN C. STENNIS

Mr. Chairman, we are receiving testimony from one of the most important, and yet controversial agencies within the Department of Agriculture—the Food and Nutrition Service. This agency houses programs which are vital to the well-being of our Nation. These same programs are criticized almost daily by some who would like to see them stopped. While I am among those who believe that programs like the food stamp program are not being run in the most efficient manner, I am not among those who feel that the remedy is to abolish the programs.

I am a particularly strong advocate of the child nutrition programs, specifically the school lunch program. In far too many cases, Mr. Chairman, this meal is the only decent meal that a child will get in a day. There is no way to measure in dollars the value of a healthy child, but I believe in it strongly and will work to keep this program adequately funded.

Now this food stamp program I mentioned earlier is a different story. I still support the program, but I believe it needs a little cleaning up. At an earlier meeting of this subcommittee, I confronted Secretary Block with some of the problems in the program of which I am personally aware. One of the gravest problems seems to be policing the issuance of the stamps. I've heard first-hand of cases where a recipient would go into the food stamp office and claim that he did not receive his stamps. The head of that office had no alternative but to accept his word and issue more stamps, leaving plenty of room for abuse. This is just one example of the kind of abuse in this program.

I understand that the administration is proposing changes to correct some of these problems. However, a lot of the financial burden of the new regulations will eventually fall on the States. As I understand it, if we accept the administration's language, we will be holding the States accountable for errors made by food stamp employees. Mr. Chairman, with the current state of the economy, most of the States do not have the money to take on this burden. Therefore, the burden will be placed on the food stamp program and the food stamp recipients—the very ones we would be trying to help with such regulations.

Mr. Chairman, I urge this subcommittee, and the Committee on Agriculture, Nutrition and Forestry to continue a thorough review of all our nutrition programs, with the purpose of finding the most efficient way possible to run them. In the meantime, this subcommittee should do all it can to see that the programs are adequately funded to take care of the nutrition needs of our people.

Thank you.

1984 BUDGET PROPOSALS

Senator COCHRAN. Secretary Jarratt, you may proceed.

Ms. JARRATT. Thank you, Senator. It is a pleasure to be with you to discuss our 1984 budget proposals.

Our programs, do indeed, address themselves to those most in need in this country. We believe that our legislative package will help provide the assistance for those needy people and yet have some better management concepts, some ways of using funds without impacting negatively on the neediest people in our society.

The programs, by their nature, are sensitive to the conditions of the economy, and the budget reflects the prospects for better times, because we do believe the economic outlook is on the upturn.

In our Human Nutrition Information Service, we are continuing our commitment to provide the research base information on nutrition so it can be conveyed to the public in a meaningful and responsible manner.

At this point, I would like Mr. Leard and Ms. Wolf to speak specifically to the items for their budgets.

Mr. LEARD. Mr. Chairman, it is a privilege to be here as Administrator of the Food and Nutrition Service. I appeared before you last year as the newly appointed Associate Administrator. I am accompanied today by Mr. George Braley, the Deputy Administrator in charge of the WIC and other special nutrition programs; and by Mr. Virgil Conrad, the Deputy Administrator in charge of the food stamp program, who joined FNS after a distinguished career in the South Carolina State government; and by Mr. Jerry Boling, our Budget Officer. I am submitting a biography of Mr. Conrad.

[The statement and biography follow:]

STATEMENT OF ROBERT E. LEARD

My name is Bob Leard. I am the Acting Administrator of the Food and Nutrition Service. I appeared before you last year as the newly appointed Associate Administrator. I am accompanied by Mr. Virgil Conrad, the Deputy Administrator in charge of the Food Stamp Program, who joined the Agency after a distinguished career in the South Carolina State government; Mr. George Braley, the Deputy Administrator in charge of the WIC, Child Nutrition and Food Donations Programs, and Mr. Jerry Boling, our Budget Officer. I am submitting a biography of Mr. Conrad.

We are pleased to be here today to discuss the budgetary outlook and the Fiscal Year 1984 proposals for the food assistance programs administered by the Food and Nutrition Service. We are requesting an appropriation of about $16.0 billion for Fiscal Year 1984. This total includes legislative changes which will save about $1.1 billion in Fiscal Year 1984. This compares to an appropriation level of $17.3 billion in Fiscal Year 1983, which includes supplementals for the Food Stamp Program and for pay costs.

Overall the proposed Fiscal Year 1984 budget for the Food and Nutrition Service reflects the Administration's ongoing commitment to provide food assistance to those with genuine needs. The Fiscal Year 1984 budget will subsidize 95 million meals per day. The Food Stamp Program will serve 21.5 million persons in Fiscal Year 1984--more recipients than under any other administration. WIC participation will be 12 percent higher than in 1980. The Administration has and will continue to provide nutrition aid to needy Americans. As an overview, our proposed budget has four major goals:

- to concentrate Federal assistance to those who most need it by achieving program savings while minimizing the effects on needy recipients;
- to streamline our programs by simplifying administrative requirements and procedures, thereby reducing error and potential for fraud;
- to emphasize the responsibility of States by providing enhanced flexibility and incentives for effective and efficient administration; and
- to mitigate the growth in program costs as part of a government-wide initiative to reduce deficits.

FOOD PROGRAM BUDGET ASSUMPTIONS

The state of the economy plays a large part in determining funding levels for these programs. For example, we estimate that each one percent drop in unemployment will save $600 million in food stamp funding. Other indexes of economic activity also play an important role in determining funding levels for our programs, specifically, the Consumer Price Index for Food Away From Home and the Thrifty Food Plan. Last year we projected that these indexes would increase by about 6.7 percent--but, in fact, for the child nutrition rates now in effect, the percentage increase was nearly a percent lower than that estimate. This lower rate of inflation could mean a savings of $48 million in the School Lunch Program alone.

PROGRAM MANAGEMENT

In addition to the economic issues, this Committee has repeatedly expressed its concern over the management of these programs. In response to this, I can report to you that FNS shares this concern and is constantly seeking better management. We are continuing to make progress in initiating measures which will root out waste, fraud and abuse, while enabling us to better serve those who are legitimately entitled to receive benefits.

Some of these initiatives to date include:

-- Wage Match: States are now required to match the reported wages of applicants and participants with Social Security Administration records and/or unemployment compensation records.

-- New Legislation: Eleven of 13 budget reducing provisions contained in the 1982 Reconciliation Act have been implemented. The two remaining are the Error Reduction System and Noncompliance with Other Programs provisions. Rules on both provisions are anticipated to be issued this month. The Error Reduction System rules will be effective retroactively to October 1, 1982. The noncompliance rules, which will prevent States from increasing benefits to households when the household's benefits from other Federal programs are reduced due to fraud, will be effective 90 days from issuance of the final rule.

-- Monthly Reporting and Retrospective Budgeting: This system will require program participants to report on their circumstances on a monthly basis. Benefits and eligibility will be retrospectively determined based on these reports, that is, the reports sent in for one month will be the basis for the eligibility and benefit determination of a future month. Currently, eligibility and benefits are determined prospectively; workers try to predict future circumstances. The monthly reporting and retrospective budgeting system will help us measure accurately, thus reducing errors as well as outlays.

-- Expedited Service: These rules change eligibility requirements for expedited service. Currently, applicants who are destitute, or who have zero net income, are entitled to have their applications acted on and benefits delivered within three working days. The new rules limit expedited service to applicants who have $100 or less in assets and who have less than $150 in gross monthly income or who are destitute migrant farmworkers. The time for processing these persons' applications and delivering benefits is now five calendar days. These changes more accurately target expedited service to needy applicants and shift administrative effort to the States.

-- New Integrated Quality Control (QC) Review System: This new system, the combined effort of DHHS and USDA, allows State agencies to integrate the quality control functions of the Food Stamp, AFDC and Medicaid Programs. This will reduce the administrative burden QC currently places on States. Each State has now received a package of forms and procedures allowing them to begin collecting data and sending it to us for processing. The processing of the data will begin in early spring of this year.

-- Work Registration/Job Search: In Fiscal Year 1983, as in past years, work registration is being conducted nationwide with State welfare agencies and USDA splitting the cost evenly. USDA is contracting with 42 State welfare agencies for the performance of job search activities. The contracts are being funded at 100 percent by USDA and total costs will be approximately $30 million.

The Department will publish proposed regulations which will allow State welfare agencies to administer work registration and job search within certain guidelines. The proposed regulations will have State agencies advise work registrants and monitor their job search activities. Under these revised rules, work registration and job search will be considered an administrative function of the States and funded at the same rate as other functions.

-- Operation Awareness: This FNS initiated information exchange program allows States to share innovative techniques for eliminating fraud, waste and abuse in the Food Stamp Program. The outcome of the program will be lowered error rates, improved program understanding and better management of program funds.

-- Revised Reporting System: School claims must now be filed within 60 days and States must file final reports within 90 days. This important change was made with the help of this Committee. It will improve fiscal management of program funds.

-- Moving Surplus Commodities: Over the past 15 months, we have successfully operated a temporary program to help alleviate dairy surpluses and provide assistance to needy persons. By this summer, we expect to have orders for over 600 million pounds of cheese and butter for distribution by States and charitable organizations to the Nation's needy. We have similarly increased distribution of surplus commodities to our traditional outlets, including schools and charitable institutions.

-- Improved Targeting of School Meals: For the past two school years, we have required social security numbers from parents of school children who apply under this program. Local school officials have also undertaken activities to verify incomes on school meal applications and to identify sources of income. These efforts have and will continue to better target our dollars to children who truly qualify for special assistance.

-- WIC Vendor Monitoring: As in the Food Stamp Program, we are redoubling our efforts to identify and punish vendors who abuse the WIC Program's intent. Regulations which require increased State review of WIC vendors are now being implemented.

- Audit Resolution/Claims Collection: Faster resolution of audit findings is an important goal. We have achieved this and have cut the amount of claims owed by the States to the Federal Government by over 60 percent.
- Electronic Funds Transfer: Funds for all FNS' programs now reach States in one day, limiting the need for cash on hand.

These are just some of our major initiatives to improve program management.

Proposed Legislation

We are proposing legislative changes in line with our Budget goals. This legislation will soon be submitted to the authorizing committees.

1. First is the government-wide initiative to control the budget growth and minimize the impact on program recipients through a six month delay in the cost-of-living increases. For Fiscal Year 1984, the President is proposing that all cost-of-living adjustments be delayed by six months for the programs which have such factors in their basic law. For the Food and Nutrition Service, this proposed change will affect: (a) all child nutrition reimbursement rates scheduled to change July 1, 1983; (b) the commodity entitlement rates due to change July 1, 1983; and (c) the food stamp allotment and deductions due to change October 1, 1983.
2. The second series of proposals in line with our continuing goal of program simplification includes:
   - consolidation of the School Breakfast Program, Child Care Food Program and the Summer Food Service Program into a general nutrition assistance grant.
   - transfer of the nutrition assistance aspects of the Head Start and Elderly Feeding Programs to the agencies who administer the basic programs.
   - simplification of the eligibility and benefit determination within the Food Stamp Program by:
     a. simplified deductions for earnings, child care costs and shelter costs;

b. a simplified household definition; and

c. categorical eligibility for AFDC households.

3. The third major area is to increase the responsibility and authority of States to improve program operations.

These initiatives include:

-- revising the error-rate sanction and incentive system to hold States liable for errors in eligibility and overissuance above three percent; and

-- providing for the verification of free and reduced-price school lunch applications by the food stamp office.

CHILD NUTRITION PROGRAMS

For Child Nutrition Programs, we are requesting a total appropriation of $2,932 million in Fiscal Year 1984 compared to $3,178 million in 1983. The change consists of an increase of $66.7 million which is due primarily to increased Federal meal reimbursement rates and a decrease of $312.8 million attributable to proposed legislation.

Funds requested for the Child Nutrition Programs provide general assistance for all lunches served in eligible schools and special assistance to those lunches served to low-income children at free and reduced prices.

The Fiscal Year 1984 Budget also requests funding for a proposed General Nutrition Assistance Grant of $535 million. This assistance would be provided to the States in lieu of funds for the School Breakfast, Child Care Food and Summer Feeding Programs at 85 percent of the projected Fiscal Year 1984 funding levels for these programs. Funding for meal assistance to family day care homes and Head Start are not included in these calculations. Funds are also requested for State Administrative Expenses for verification of free and reduced price meal applications.

SPECIAL MILK PROGRAM

In Fiscal Year 1984, we are requesting an appropriation of $11.7 million. This together with an unobligated balance of $8.5 million in anticipated carryover funds from the Fiscal Year 1983 appropriation will fund this program.

SPECIAL SUPPLEMENTAL FOOD PROGRAMS

Funding for the WIC and Commodity Supplemental Food Programs for Fiscal Year 1984 is requested at $1,093 million--the same level as Fiscal Year 1983. We are also requesting a single appropriation for these two closely related programs which received separate appropriations in Fiscal Year 1983. The pilot elderly programs which were first authorized by the Committee in Fiscal Year 1982 will continue to operate in Fiscal Year 1984 under the two-year authorization provided last year.

FOOD STAMP PROGRAM

The revised estimate for the Food Stamp Program in Fiscal Year 1983 is $12,005 million. This includes a proposed supplemental of $1,189 million. For Fiscal Year 1984, the program is expected to require $10,917 million or a reduction of $1,088 million. This assumes full implementation of the 1982 amendments along with a decline in unemployment. Average participation is anticipated to decrease from 21.95 million persons in Fiscal Year 1983 to 21.54 million in Fiscal Year 1984. This will result in $322 million in reduced program costs. The legislative changes discussed earlier together with this reduction will result in a net reduction of $766 million in Fiscal Year 1984.

NUTRITION ASSISTANCE FOR PUERTO RICO

This program will continue at the $825 million level which is authorized by law. This program is currently undergoing evaluation during the transition from the Food Stamp Program. Our preliminary observations indicate that the program is operating smoothly with very few problems.

FOOD DONATIONS PROGRAM

For the Food Donations Program, which includes commodity support for needy families on Indian reservations and in the Trust Territories, an appropriation of $38.1 million is requested along with $11.9 million for the administrative costs of operating these programs. The total amount available will remain substantially the same as the Fiscal Year 1983 program level if an anticipated $3.4 million in Fiscal Year 1983 unobligated balances is made available for use in Fiscal Year 1984.

The Food and Nutrition Service is proposing to consolidate the Elderly Feeding Program into the aging nutrition programs administered by the Department of Health and Human Services. Most of the commodity subsidy for this program is provided in the form of cash in lieu of commodities, and consequently can be more easily administered by a single Federal agency.

FOOD PROGRAM ADMINISTRATION

We are requesting a total appropriation of $80.4 million for the administrative costs of the food assistance programs. This is a reduction of nearly $2 million below Fiscal Year 1983 and is primarily due to a decrease in staffing in both 1983 and 1984.

No reductions-in-force are planned. We will continue reviewing all our operations to determine where we can simplify and streamline our work and, as attrition occurs, shift our staff to higher priority work.

The key initiatives which have permitted the Agency to better target and reduce resources include:

- -- decentralization of accounting activities and the development of an automated accounting system;
- -- reductions in receivables and closure of outstanding debts totaling $17.5 million;
- -- replacing the Food Stamp Program in Puerto Rico with the nutrition assistance block grant;
- -- developing a new system to increase the accountability of food stamp retailers and banks which handle food stamp coupons;
- -- simplifying regulations and reviewing and reducing reporting requirements; and

-- developing an automated quality control system;

-- reorganizing family nutrition divisions.

We will continue to improve our adminstration of these programs, and we will accomplish this with fewer people and funds in 1984.

Mr. Chairman, this completes my statement; I and my staff will be pleased to respond to any questions.

BIOGRAPHICAL SKETCH OF VIRGIL L. CONRAD

Virgil L. Conrad, former commissioner, South Carolina Department of Social Services, was named deputy administrator for family nutrition programs in July 1982. Mr. Conrad has held various managerial and executive positions with both the South Carolina Department of Social Services and the West Virginia Department of Welfare. In those positions he was responsible for developing and implementing policies and procedures for public assistance programs which included social services block grants, food stamps, aid to families with dependent children, medicaid, child welfare, work incentive, and State general assistance programs.

Mr. Conrad earned a bachelor of arts degree from Alderson-Broaddus College, and a masters of public administration from West Virginia University. He is married and has two children.

FOOD ASSISTANCE PROGRAMS

Mr. LEARD. We are pleased to be here today to discuss the budgetary outlook and the fiscal year 1984 proposals for the food assistance programs administered by the Food and Nutrition Service. We are requesting an appropriation of about $16 billion for fiscal year 1984. This total includes legislative changes which will save about $1 billion in fiscal year 1984. This compares to an appropriation level of $17.3 billion in fiscal year 1983, including a supplemental appropriation for the food stamp program and for pay costs.

Overall, the proposed fiscal year 1984 budget for the Food and Nutrition Service reflects the administration's ongoing commitment to provide food assistance to those with genuine needs. The fiscal year 1984 budget will subsidize 95 million meals per day. The food stamp program will serve up to 22 million persons in fiscal year 1984—more recipients than under any other administration. WIC participation will be 12 percent higher than in 1980. The administration has, and will continue to provide, nutrition aid to needy Americans. As an overview, our proposed budget has four major goals.

First, to concentrate Federal assistance to those who most need it by achieving program savings while minimizing the effects on needy recipients; second, to streamline our programs by simplifying administrative requirements and procedures, thereby reducing error and potential for fraud; third, to emphasize the responsibility of States by providing enhanced flexibility and incentives for effective and efficient administration; and, fourth, to mitigate the growth in program costs as part of a Government-wide initiative to reduce deficits.

FOOD STAMP PROGRAM

Concerning our food stamp budget assumptions, the state of the economy plays a large part in determining funding levels for this program. For example, we estimate that each 1 percent drop in unemployment will save $600 million in food stamp funding. Other indexes of economic activity also play an important role in determining funding levels for our programs—specifically, the Consumer Price Index for food away from home and the thrifty food plan. Last year, we projected that each of these indices would increase by about 6.7 percent. In fact, for the child nutrition rates now in effect, the percentage increase was nearly 1 percent lower than that estimate. This lower rate of inflation could mean a savings of $48 million in the school lunch program alone.

In addition to the economic issues, this committee has repeatedly expressed its concern over the management of these programs. In response to this, I can report to you that FNS shares this concern and is constantly seeking better management. We are continuing to make progress in initiating measures which will root out waste, fraud, and abuse, while enabling us to better serve those who are legitimately entitled to receive benefits.

Some initiatives to date include:

Wage match. States are now required to match the reported wages of applicants and participants with Social Security Administration records and/or employment compensation records.

With respect to new legislation, 11 of the 13 budget-reducing provisions contained in the 1982 Reconciliation Act have been implemented. The other two will be out very quickly.

Monthly reporting and retrospective budgeting is being implemented.

We are implementing new, expedited service rules which will limit expedited service to applicants who have $100 or less in assets and who have less than $150 in gross monthly income or who are destitute migrant farmworkers. The time for processing these persons' applications and delivering benefits is now 5 calendar days. These changes will more accurately target expedited service to needy applicants and shift administrative effort to the States.

We have a new integrated quality control review system which will combine the efforts of Health and Human Services and USDA and allow State agencies to integrate the quality control functions of the food stamp, AFDC, and medicaid programs.

In fiscal year 1983, we are contracting with some 42 State welfare agencies for the performance of job search activities. These contracts are being funded at 100 percent by USDA, and total costs will be approximately $30 million.

FNS has initiated an information exchange program called Operation Awareness, which allows States to share innovative techniques for eliminating fraud, waste, and abuse in the food stamp program. The outcome of the program should lower error rates and improve program understanding and improve management of the funds.

SURPLUS COMMODITIES

We are moving surplus commodities. Over the past 15 months, we have successfully operated a temporary program to help alleviate dairy surpluses and provide assistance to needy persons. By this summer, we expect to have orders for over 600 million pounds of cheese and butter for distribution by States and charitable organizations to the Nation's needy. We have similarly increased distribution of surplus commodities to our traditional outlets, including schools and charitable institutions.

IMPROVED PROGRAM ADMINISTRATION

We have improved targeting of school meals. For the past 2 years, we have required social security numbers from parents of schoolchildren who apply under this program. Local school officials have also undertaken activities to verify incomes on school meal applications and to identify sources of income. These efforts will continue to better target our dollars to the children who truly qualify for special assistance.

We are increasing our efforts in WIC vendor monitoring.

We are also working for a faster audit resolution and improved claims collection.

Finally, we have improved our funds transfer to the States through electronic means, so now the funds reach the States in 1 day.

These are just some of the major initiatives we have taken to improve program administration.

PROPOSED LEGISLATION

Turning to our proposed legislation, we are proposing legislative changes in line with our budget goals. This legislation will soon be submitted to the authorizing committees.

First, is the Government-wide initiative to control the budget growth and minimize the impact on program recipients through a 6-month delay in the cost-of-living increases. For fiscal year 1984, the President is proposing that all cost-of-living adjustments be delayed 6 months for the programs which have such factors in their basic law. For the Food and Nutrition Service, this proposed change will affect all child nutrition reimbursement rates scheduled to change July 1, 1983, the commodity entitlement rates due to change that same date, and the food stamp allotment and deductions due to change October 1, 1983.

The second series of proposals in line with our continuing goal of program simplification includes: consolidation of the school breakfast, child care food, and the summer food service programs into a general nutritional assistance grant; transfer of the nutrition assistance aspects of the head start and elderly feeding programs to Health and Human Services; simplification of the eligibility and benefit determination within the food stamp program by simplified deductions for earnings, child care costs and shelter costs, a simplified household definition, and categorical eligibility for AFDC households.

The third major proposal is to increase the responsibility and authority of States to improve program operations. This initiative includes revising the error rate sanction and incentive system to hold

States liable for errors in eligibility and overissuance above 3 percent; and providing for the verification of free and reduced-price school lunch applications by the food stamp office.

APPROPRIATIONS REQUESTED

For child nutrition programs, we are requesting a total appropriation of $2.93 billion in fiscal year 1984 compared to $3.18 billion in 1983. The change consists of an increase of $67 million which is due primarily to increased Federal meal reimbursement rates and a decrease of $313 million attributable to proposed legislation.

Funds requested for the child nutrition programs provide general assistance for all lunches served in eligible schools and special assistance for those lunches served to low-income children at free and reduced prices.

The 1984 budget also requests funding for a proposed general nutrition assistance grant of $535 million. This assistance would be provided to the States in lieu of funds for the school breakfast, child care, and summer feeding programs. Funding for meal assistance to family day care homes and Head Start are not included in this calculation.

Funds are also requested for State administrative expenses for verification of free and reduced price meal applications.

Concerning the special milk program, in fiscal year 1984 we are requesting an appropriation of $11.7 million. This, together with an unobligated balance of $8.5 million in anticipated carryover funds from the fiscal year 1983 appropriation, will fully fund the program.

Funding for the WIC and commodity supplemental food programs for fiscal year 1984 is requested at $1.09 billion, the same level as fiscal year 1983. We are also requesting a single appropriation for these two closely related programs which have received separate appropriations in the past. The pilot elderly programs which were first authorized in fiscal year 1982 will continue to operate in fiscal year 1984 under the 2-year authorization provided last year.

Turning to the food stamp program, the revised estimate for this program in fiscal year 1983 is $12 billion. This includes a proposed supplemental of $1.18 billion. For fiscal year 1984, the program is expected to require $10.9 billion, or a reduction of $1.08 billion. This assumes full implementation of the 1982 amendments along with a decline in unemployment. Average participation is anticipated to decrease from almost 22 million persons in fiscal year 1983 to 21.5 million in fiscal year 1984. This will result in $322 million in reduced program costs. The legislative changes discussed earlier, together with this reduction, will result in a net reduction of $766 million in fiscal year 1984.

Concerning nutrition assistance for Puerto Rico, this program will continue at the $825 million level which is authorized by law. It is currently undergoing evaluation during the transition from the food stamp program. Our observations indicate that the program is operating smoothly, with very few problems.

For the food donations program, which includes commodity support for needy families on Indian reservations and in the Trust Territories, an appropriation of $38.1 million is requested along with $11.9 million for the administrative costs of operating these programs. The total amount available will remain substantially the same as the fiscal year 1983 program level, if an anticipated $3.4 million in fiscal year 1983 unobligated balances is made available for use in fiscal year 1984.

The Food and Nutrition Service is proposing to consolidate the elderly feeding program into the nutrition programs for the aging which are administered by the Department of Health and Human Services. Most of the commodity subsidy for this program is provided in the form of cash-in-lieu of commodities and, consequently, can be more easily administered by a single Federal agency.

FOOD PROGRAM ADMINISTRATION

Turning to food program administration, we are requesting a total appropriation of $80.4 million for the administrative costs of the food assistance programs. This is a reduction of nearly $2 million below fiscal year 1983 and is primarily due to a decrease in staffing in both 1983–84. Part of this decrease is related to the legislative proposal to replace the school breakfast, child care, and summer feeding programs with a general nutrition assistance grant. No reductions-in-force are planned. We will continue reviewing all our operations to determine where we can simplify and streamline our work and, as attrition occurs, shift our staff to higher priority work.

We will continue to improve our administration of these programs, and we will accomplish this with fewer people and funds in 1984.

Mr. Chairman, this completes my statement. My staff and I will be pleased to respond to any questions.

Senator COCHRAN. Thank you, Mr. Leard.

FOOD STAMP SUPPLEMENTAL

Senator COCHRAN. In connection with the pending request now before the Congress for a supplemental appropriation of $1.2 billion for food stamps, is this going to be adequate to fully fund the program for the balance of this fiscal year?

Mr. LEARD. Yes, sir, based on our present projections.

Senator COCHRAN. What is the basis for the request for this supplemental? Is it due to rising unemployment figures? What has caused us to have to consider this supplemental request?

Mr. LEARD. We have seen a rise in the participation in the program generally throughout the country, up to approximately 22 million people, and we have projected this number through fiscal year 1983. That is the basis for the $1.2 billion. An increase in participation in this program is generally directly proportional to an increase in unemployment.

Senator COCHRAN. When will we have to approve that supplemental budget request to assure that there won't be any reduction in benefits to eligible recipients in the program?

Mr. LEARD. It should be approved by the first of July.

Senator COCHRAN. What will happen if Congress doesn't act favorably in response to that request?

Mr. LEARD. We would inform the States that they would have to reduce benefits within 30 days.

LEGISLATIVE CHANGES

Senator COCHRAN. I know that your request contemplates certain legislative changes being made by Congress. What if Congress doesn't act favorably on those legislative change requests? By what amount will the appropriation request have to be increased in order to fully provide funds to cover all eligible participants in the food stamp program?

Mr. LEARD. For fiscal year 1984, it would have to increase by $766 million, which would be the savings that——

Senator COCHRAN. That all of these changes taken together would result in?

Mr. LEARD. Yes, sir. Mr. Chairman, I would like to elaborate on this. Because of interaction with other programs, we would actually need $1 billion without legislation.

Senator COCHRAN. If the legislative changes are approved by Congress, how many people will be eliminated from the eligibility rolls? Do you have that figure? You say about 22 million are participating now.

Mr. LEARD. Nobody would be made ineligible.

Senator COCHRAN. So, all the people who are deriving food stamp benefits would continue to obtain those benefits even with the legislative changes that you request. Is that correct?

Mr. LEARD. The only people who would be taken off the rolls are those who did not comply with the community work experience program. If they chose not to adhere to that portion, then they would be terminated. No one would be removed because of the simplification—the standardization—aspects.

Senator COCHRAN. Where then would the savings be achieved? If you are going to have the same number of people participating, or at least all of those who are eligibile under current law, where will the $1 billion or $766 million in savings, come from—administrative costs?

Mr. LEARD. Much of the savings will result when we standardize and simplify the program, and it will be in terms of our error reduction savings. One example of savings is the household in which every member is in the AFDC. That pure AFDC household makes up 25 percent of the food stamp caseload. We would declare those people categorically eligible for the food stamp program with standardized benefits. By doing this, we would remove 25 percent of the caseload that a caseworker currently has. Once a household has been established as pure AFDC, it becomes eligible. That would result in more time for caseworkers to focus on cases with a high error rate.

WASTE, FRAUD AND ABUSE

Senator COCHRAN. In a report I have seen, it was suggested that there is about $1 billion a year that can be attributed to waste, fraud and abuse in the food stamp program. Is that an accurate figure?

Mr. LEARD. Sir, I wouldn't say that it is about $1 billion. If you want to base a number on the error rates of the States, you can come out around that $1 billion, but that is based on a lot of factors.

Ms. JARRATT. Senator, there is, as we well know, $1 billion of misexpenditure in the food stamp program. The bulk of that misexpenditure occurs in the certification process. We read in the paper all the time about illegal food stamp trafficking, and we are pursuing that vigorously. But the eligibility process is too complicated. I liken it to one trying to fill out an income tax form. It is about four pages, and there are numerous deductions with which one must comply. Back in 1977, the reform effort took away the eight itemized deductions and replaced it with a standard deduction, with the medical deduction incorporated into one standard. But when the legislation got out of the House, we were back to another deduction, and another one was added on the floor. Every time we have addressed the legislation since, we keep piggybacking deductions for various categories of people. Each one of those deductions makes a fairly complex computation for the eligibility worker. Thus, there is potential for unintentional misstatement of income or a misunderstanding of the process, both on the certification worker's part and on the recipient's part.

We do want to vigorously pursue clearly illegal fraud in the program. Fraud, in my mind, has a clear connotation of criminal misconduct, and I think oftentimes we refer to the errors which account for a large percent of the misexpenditure as fraud. That is not fraud; that is abuse. Unless a person intentionally committed the act, it is not fraud. All that misexpenditure gets lumped into one catergory sometimes in our public reference.

Our legislative proposal is to help simplify the program design so that the process will be simpler for the recipient, will be less prone to error, both on the part of the recipient and the caseworker, and will help the States get their error rates down. Part of our package also has a reduced error rate to which the States must adhere. Clearly, unless we have some kind of program simplification, the States aren't going to be able to accommodate that. The parts of the budget all work together.

Senator COCHRAN. What I am having difficulty understanding is how the legislative changes are going to save $766 million with no eligible recipients being dropped from the food stamp rolls. It seems that no administrative savings can be identified to account for those savings. We probably have $1 billion wasted because of errors or abuse in the program. By instituting these legislative changes, you say you are going to eliminate all waste in the food stamp program—that just doesn't make much sense. I am trying to find out specificially who is going to end up using less food stamp dollars. How can you get away with appropriating $766 million less?

Mr. LEARD. Of that $766 million, $200 million is projected in error reductions. Let me give you a couple of examples, if I may.

I talked earlier about how we would simplify the deductions and standardize them. Our proposal is to take the 5 possible deductions that require 10 computations and reduce them to 4 possible deductions and 4 computations. Thus, we have cut more than half of the number of computations that would be required. A simplified definition of household would take the current 10 decision points and reduce them to 2 decision points. It is all these things that are projected in the $766 million—$200 million being error reduction. By standardizing, we are going to save. There would be a $100 million benefit reduction, because when we standardize, some people below the standard will gain and others above will lose. That is the second part. The third part of the proposal is the reduction of the error rate sanction which we would subsidize up to 3 percent of each State's total issuance for fiscal year 1984. That would result in a savings of approximately $400 million. We feel that the combination of the simplification and standardization of the various parts of our program would allow the States to get down to a 3-percent error rate.

OIG/COMPLIANCE BRANCH

Senator COCHRAN. In what respect does your agency work with the Office of the Inspector General to try to figure out targets for investigations, counterfeiting or professional criminal activity relating to the misuse of food stamps?

Mr. LEARD. We work very closely with them, sir, in several ways. If our regional offices and our field offices hear of anything or come up with anything that smacks of fraud, then we get OIG involved. We also have a nationwide compliance branch in our food stamp program. These are the people who go out to the retailers and keep track of how those retailers are adhering to our regulations. The compliance branch is limited in scope as to what type of activities it can perform, because they are not full-scale investigators, nor are they trained to be, like the Inspector General's staff. But they work very closely with both the audit side and the investigative side of the Inspector General's Office. When they find a retail store that is either trafficking or breaking the rules in some other manner, they get the Inspector General involved. It is a very close partnership.

Senator COCHRAN. How many people do you have working in this compliance branch?

Mr. LEARD. Approximately 75, sir.

Senator COCHRAN. Are they scattered around the field offices or do they work out of Washington?

Mr. LEARD. They are scattered in field offices, and they also work very much on their own. They have certain areas they work in, and after a while somebody may be recognized, so we shift them around. They are quite a unique group.

Senator COCHRAN. Do you think we are getting our money's worth for the funds allocated to support the compliance branch?

Mr. LEARD. Absolutely. You ought to see the letters of anguish that come from retailers who have been caught. There are two ways we can take action once a retailer has been caught. They can be given a suspension during which time they are not allowed to accept food stamps or they can be given a civil money penalty.

Senator COCHRAN. Is this a retailer who is accepting food stamps in exchange for something other than food? Is that the general problem that you run into?

Mr. LEARD. Yes, sir—for cigarettes, liquor, cleaning materials. It is not that they aren't warned. The first time we are alerted to such activity, the retailer is given a warning. Somebody may call a local field office and say, "I saw such and such in a retail store," and we will give the store management a warning. After that warning, we will go in and try to make an illegal buy. Of course, the retailers don't know who the compliance people are, and we catch a lot of them for illegal activity. Last year, we caught some 5,000, and prosecuted roughly 57 percent of the total number that we went out and actually investigated.

Senator COCHRAN. What happens to the person who actually tries to negotiate food stamps for an unauthorized purchase? Do you do anything to him?

Mr. LEARD. No, sir, we don't. It is generally pretty hard to catch him.

Senator COCHRAN. Are most of these investigations undertaken with audits or with just someone walking in and offering to purchase an item using a food stamp?

Mr. LEARD. Generally, the compliance branch people go into the suspected store and attempt to make purchases of a large value—at least something over $5, or some large item that is illegal, or also may try to get illegal change—to see if the retailers are really following the regulations. They will try to do this several times.

FOOD STAMP DUPLICATION

Senator COCHRAN. Is progress being made in the effort to prevent the large scale duplication of food stamps—counterfeiting? There have been some reports of this in the press.

Mr. LEARD. Yes, sir, something new has been done. We have taken the largest food stamp bill, which is the $10 bill, and used a latent image process on it. This is a process of lithograph printing so it is very hard to duplicate. It is like duplicating legal tender. If you look at it, you see the seal. If you turn it on edge, you will see a totally different picture. It is a very sophisticated process.

Concerning counterfeiting itself, if you want to talk about $1 billion, it isn't one of the large parts of food stamp fraud. The other interesting thing is we generally catch the large percentage of food stamp counterfeiting before it is in circulation.

Senator COCHRAN. Is that through the compliance branch or OIG?

Mr. LEARD. Generally, it is the Inspector General. However, when the compliance branch finds something, they certainly will work with and help the staff of the Inspector General.

PENALTIES/SANCTIONS

Senator COCHRAN. What is the usual penalty that is assessed against a retailer who is found to be accepting food stamps illegally? What do you do to him? What do you normally end up imposing as a sanction?

Mr. LEARD. Again, a lot of it depends on the severity of the infraction. Generally, a year's suspension or an equivalent money penalty is imposed.

Senator COCHRAN. A year's suspension from the right to accept food stamps?

Mr. LEARD. Yes; they are suspended from any redemption or participation in the food stamp program. However, of interest is the fact that they can be given an equivalent fine, and they would much prefer the fine. We see this in much of our correspondence with convicted retailers. Also, the retailers who have been found guilty can work through an administrative review process and have their cases reviewed. We handle a great number of these each year. A majority of the retailers would much prefer to pay a heavy fine and still be on the program rather than be suspended for a year.

Now, if it is a retailer's first conviction and he can show that it is a hardship to the recipients involved if we take them off the program, we will give the retailers a money fine rather than a suspension. Examples of such hardships would be: an ethnic store that is the only one of its kind in the neighborhood or the only retail store in an elderly neighborhood.

Senator COCHRAN. You talk about the fact that some 5,000 cases have been processed like this. Is this for this past year, or has it been over a longer period of time?

Mr. LEARD. That was in 1982. And, of those, 1,800 were disqualified. The rest were fined.

Senator COCHRAN. The rest were given some kind of fine.

Are these penalties prescribed by law?

Mr. CONRAD. Yes, sir.

Mr. LEARD. Yes, sir. In the 1982 act, there are some retailer provisions that were brought into the law which tightened the penalties. Civil money penalties are from $5,000 to $10,000. The first offense entails a penalty of 6 months to 5 years, the second is 12 months to 10 years, and the third time they are out of the program. It is what we call the 6, 12, and out the door.

Senator COCHRAN. Did you have any retailers who were permanently disqualified during 1982?

Mr. LEARD. I would have to provide that for you, Mr. Chairman.

[The information follows:]

In 1982, no authorized retail firms were permanently disqualified from the food stamp program. The regulations which provide for increased administrative sanctions, including permanent disqualification, became effective on December 17, 1982. In 1982, there were 1,804 disqualifications of authorized retail firms. More than 60 percent of the disqualifications were for 1-year periods, while 6 percent were disqualified for 3-year periods.

OPERATION AWARENESS

Senator COCHRAN. I know the Secretary made a recent announcement about the operation awareness program. You included a reference to that in your statement. As I understand it, it is, basically, an effort to reduce losses in the food stamp program. Is there any indication, at this point, how much success will be achieved through operation awareness?

Mr. LEARD. I would say it is a little early to tell; however, I would like, if I may, to amplify some of the things that will happen.

We have invited all of the State food stamp directors to come to Washington in May for a 2-day meeting to hear some of the good things that are being done and to give them a chance to get new ideas. This has not happened in several years, and we think this will be a good opportunity for them to get together.

We are also periodically putting out a publication called "State to State" which will be a series highlighting good ideas that are being used in a State. What we will do is give credit to the State, and at the bottom of the article the name and phone number of someone to contact about that idea. Our first issue went out about 2 weeks ago. The first contact person has already received calls from five other States seeking information. Obviously, States are reading this publication and taking advantage of it.

Additionally, there are hundreds of initiatives being taken throughout the United States at the State level, at the county level, and at local levels. We have collected all those initiatives and put together a matrix of antiwaste, fraud and abuse ideas which we plan to issue to the States. The matrix will not only tell what is being done, but whom you can contact for more information.

FOOD STAMP THEFTS

Senator COCHRAN. I read recently that in some poor neighborhoods, there is a continuing problem of theft of food stamps from mail boxes. Is this something that is a serious, nationwide problem or is this isolated just to a few poor neighborhoods in some large cities? Could you tell us about your findings in that area?

Mr. LEARD. I don't believe it is isolated to a few poor neighborhoods, nor do I think it is a nationwide problem. Our national loss is just less than 1 percent, about .75 percent. We have put in new mail tolerance regulations to force certain larger metropolitan areas that have these high loss rates to install new systems. They are looking at such things as certified mail or direct issuance. In Chicago, the recipients go to currency exchanges on almost all corners where they pick up their food stamps.

We are also taking steps in areas where there are excessibly high mail losses. The mail loss figure for 1982 is around $20 million.

Senator COCHRAN. And, in those cases, if a person comes into the food stamp office or somehow communicates with the office that the stamps didn't get delivered, is the practice to reissue them?

Mr. LEARD. That is generally the case. There is no way to prove they haven't been received. However, if we know of repeated offenders, we can insist they come in and get their food stamps directly from a central office. This way, they cannot use the excuse of mail loss.

Senator COCHRAN. Do you think that most of these losses by mail or theft are legitimate? What have your investigations shown? Have your investigations shown that these people, who are beneficiaries, are victims of criminal conduct by somebody else—someone who is stealing their food stamps?

Mr. LEARD. Yes, sir.

Senator COCHRAN. Have there been any cases where these wrongdoers have been found out and prosecuted?

Mr. LEARD. As a matter of fact, there is such a case in Iowa. There was a very large mail loss, and the indications were that it was somewhere within the post office that this was occurring. There was a series of counties that had excessively high losses. We sent OIG people into these particular counties and started looking into the situation. All of a sudden, the mail loss in those counties dropped abruptly, but it rose in other counties where there weren't investigations. It is still an ongoing problem.

Senator COCHRAN. Have there been any arrests or prosecutions of cases of theft of food stamps?

Mr. LEARD. Oh, yes, sir, every year we have these.

Senator COCHRAN. The loss ratio, though, you say is less than 1 percent nationwide for this?

Mr. LEARD. That is correct, sir, three-fourths of 1 percent.

PROJECTED COSTS

Senator COCHRAN. I know that in calculating the projected cost of the food stamp program, you are compelled to make certain assumptions, such as the unemployment rate during fiscal year 1984, as well as other factors that would bear on the number of people eligible to participate in the program. Could you tell me something about the assumptions on which you based your budget request?

Mr. LEARD. Our assumptions are made, of course, on an unemployment rate of 10.9 percent. Now, the amount that the recipient receives is based on something called the thrifty food plan, which is based on the cost of food. Right now, it is at $253 for a family of four. That has remained pretty stable, because food prices have not gone up. Those are the two major assumptions.

Senator COCHRAN. Are you projecting the same food costs in fiscal year 1984 as we have now?

Mr. LEARD. It goes up just a little. It is projected to go to approximately $254 from the current level of $253.

Senator COCHRAN. We have been told that for every 1 percent change in unemployment, there is an impact on the food stamp program of some $600 to $650 million a year. Is that still a fairly accurate statement?

Mr. LEARD. That is correct, sir.

Senator COCHRAN. So, if instead of 10.9 percent unemployment in 1984, we have 9.9 percent, then we could expect to see the food stamp program cost $600 to $650 million less than it is projected to be.

Ms. Jarratt. That is correct. We expect that about 1.2 million people would go off the program, if that were to occur.

Senator Cochran. I am told that there is a high turnover rate among food stamp recipients. Is that correct?

Ms. Jarratt. A lot of it is in response to the trends of the times.

Senator Cochran. Do you have a figure that represents a minimum base of participation in the food stamp program—one where people who are elderly, or those whom you can count on once every year as being participants in the program, along with another number representing the fluctuation or changes due to economic conditions?

Ms. Jarratt. Well, we can tell you that just a small amount, less than half of the caseload, is comprised of families who have children under 18, and so are dependent by some characteristic. The elderly portion of the caseload has been, for some time, up around 9 percent. Also, the category that is disabled, for some reason or another, is also on the increase. So, the able-bodied portion of the caseload has been declining, and it is less than a one-quarter of the total caseload. Of course, the elderly, or people who are dependent because of age, or for whatever reason, are permanent participants in the program.

Mr. Leard. I might add, sir, that the elderly are on for much longer periods of time. The average time is about 6 months. We do have a portion of the food stamp program participants that are on the program for a shorter period of time. We don't have the time period, but it is about 2 or 3 months.

COMMUNITY WORK EXPERIENCE PROGRAM

Senator Cochran. Well, for the group that you identify as the able-bodied group, between 20 and 25 percent, I know that the Congress has authorized work registration requirements to be imposed, job search activities, and that kind of thing. There also was a proposal, I believe, in your request this year that these activities be financed by joint Federal-State funds on a 50–50 basis. Is this something new that will require legislation, or is this going to be achieved through some regulation change?

Mr. Leard. Yes, sir, this is what we are calling the community work experience program, and it would require legislation. This year, we are requiring 100-percent Federal funding for the job search, and our proposal would be 50–50 funding.

Senator Cochran. We have some pilot programs, don't we, around the country on work requirements? Has there been any experience that you can tell us about, that indicates whether or not jobs are really found and whether this results in a reduced burden on the food stamp program?

Mr. Leard. Mr. Chairman, we had some demonstration projects that have been going on for the last several years, and I would like to let Mr. Conrad speak on that.

Mr. Conrad. Under our demonstration authority, we have been experimenting with the community work projects throughout the United States. We have about five of those currently active.

In San Diego County, one of our largest pilot projects, we have found that the woman heading a household, who participated in the program and who goes into the employment market, averaged a much higher income as a result of that work experience than nonparticipants. In addition, we have had people out of that same project who had the opportunity to work in the fields of electronics and then moved on into meaningful employment.

Our experience has taught us that if we have good, meaningful work experience opportunities for the people, then it usually links them to higher opportunities for employment. We had two projects running like that when I was the commissioner in South Carolina. They were run by the local government, and they were favorably received. We are finishing our evaluation and will have a report to Congress on that. Our experience has shown that it takes a little more than just the opportunity to have the optional program that Congress provided last year to be able to bring these work experience programs into being, to provide the opportunity for the recipient to gain the experience, and for the local economy to receive the benefits. Therefore, we are suggesting this year that Congress look at making the community work experience program mandatory. We are also proposing in the aid to families with dependent children a counter provision that would be mandatory. We think the experience leads to better employment opportunities and higher wages, particularly among the female-headed households.

ADMINISTRATIVE COSTS

Senator COCHRAN. In the Secretary's Report to Congress, which he submitted March 17, there is an indication that the food stamp program administrative costs for the month of January were $180 million. The cumulative administrative costs for fiscal year 1983 to date, including January, were $308 million. We are troubled by that big of a figure for the month of January. Is it accurate to say that $128 million covered administrative costs for the entire first quarter?

Mr. LEARD. At the start of each quarter, we generally have larger administrative costs than the following 2 months. There is not an even spread throughout the year. Coupon printing and various other things, I think, are what you are seeing reflected in the figures for the month of January.

WIC PROGRAM PARTICIPANTS

Senator COCHRAN. In connection with the WIC program, we note that the level of funding that is being requested for the next year is the same as was made available for this fiscal year. How many eligible recipients is that going to deny benefits to if we appropriate only the same amount next year as we made available this year? How many people are going to be dropped from the program?

Mr. LEARD. About 100,000 would be dropped. It would go from 2.2 to 2.1 million participants.

Senator COCHRAN. The average number of participants would drop from 2.2 to 2.1 million?

Mr. LEARD. Yes, sir. It would be a 100,000 difference.

Senator COCHRAN. Why do you think that is a good idea?

Mr. LEARD. I think that some States have not targeted the program as well as others, and by targeting to the most needy, which, of course, are the infants and pregnant mothers, we can keep the program at its present level. We have other programs, of course, that cover the older children who are in the categories of the less needy.

Senator COCHRAN. Do you have a figure that would indicate how much money would be required to support full participation in the WIC program for all eligible applicants?

Mr. LEARD. I would like to let Mr. Braley, the Deputy Administrator for the WIC program, talk on that.

Mr. BRALEY. Mr. Chairman, there is currently no precise estimate of how many people are eligible for the WIC program nationally. As you know, it is a combination of income and nutritional need that determines eligibility, and it is very difficult to measure both those factors. Our belief is that the cost, considering only income eligibility, would be about $4.5 to $5 billion. When considering both criteria, the cost would be lower. I will be happy to provide a more definitive answer for the record.

Senator COCHRAN. Would that be the total cost or an additional cost of $4.5 to $5 billion?

Mr. BRALEY. Again, I want to refine that for the record. I think it would be the total cost.

[The information follows:]

Using data from the current population survey of the Bureau of Census and from the National Center on Health Statistics, we roughly estimate that nationally 10.5 million persons are economically eligible. The cost to support 10.5 million participants in fiscal year 1983 would be approximately $4.96 billion. The cost would increase to $5.17 billion in fiscal year 1984.

Again, due to the lack of available information, nutritional need still cannot be included in the estimation process. If nutritional need could be considered, the funding required probably would be less.

Senator COCHRAN. And the level of funding now, just to refresh my memory, is what?

Mr. LEARD. It is $1.1 billion.

Senator COCHRAN. In your experience, are there a lot of people who come in and apply for benefits under this program who are being turned away because of a lack of funding? Do you have any figures for that?

Mr. LEARD. We do have waiting lists in many States. The highest priority categories, which are the infants and pregnant women, are being taken care of, and there is no waiting for those in this category.

Senator COCHRAN. At what age does it become difficult for these children to continue in the program? Does it vary from State to State?

Mr. LEARD. It varies from State to State. We will provide you the information.

Senator COCHRAN. Yes; I would be curious to know. For instance, take my State of Mississippi, which probably would have a higher per capita participation in this program than any State in the Union. I would be curious to know how many eligible persons in Mississippi applied for the program and were turned away because of lack of available funding. Compare that with a State that may be a little better off financially. Perhaps, then, we could get some idea of what we are looking at in terms of people who are not being served by this program but who might be eligible to be served by this program.

Mr. LEARD. We will provide that for the record.

[The information follows:]

Using data from the current population survey of the Bureau of Census and the National Center on Health Statistics (NCHS) we roughly estimate the number of people potentially economically eligible for the WIC program nationwide to be 10.5 million persons. Due to the lack of available data, the nutritional risk criteria cannot be included in the estimation process. It is expected this would decrease the estimates of the number of people eligible.

The WIC program is now serving 2.4 million participants, slightly more than three-quarters being infants and children. Using 10.5 million for the potential eligible estimate, approximately 8.1 million of the potentially economic eligibles are not participating in the program.

The current population survey is a national sample survey. Its data cannot be used to estimate the potential eligibles for each State agency. Consequently, we do not have current data for Mississippi. We have requested more specific data from the 1980 census and expect to be able to develop estimates of need on a State by State basis in the summer of 1983.

MATERNAL CHILD HEALTH PROGRAM

Senator COCHRAN. I have heard it argued by some local administrators that it would be better to combine the nutritional aspects of the WIC program with the maternal child health care program to try to have a more coherent program that addresses the health and nutritional needs of women and infant children. Has this idea been reviewed? Are there any recommendations pending before the Congress to permit such a change, perhaps, on an experimental basis, rather than on a nationwide mandatory program?

Ms. JARRATT. Senator, you may recall we proposed that last year in our budget package, and it wasn't favorably accepted in the Congress. We did not look at it from a demonstration project aspect, and we haven't advocated it, but we would be happy to do so if that were the wish of the Congress. I think it has a lot of merit. For the same kinds of reasons, I don't think we should look at one feeding program in isolation, because there isn't just one program to address at a given age. I think you have to look at the programs and how you can best merge those multiple benefits, and I think merging maternal child health care with WIC would have a positive impact.

Senator COCHRAN. One administrator described the WIC program as sort of a cadillac program in one State, compared with the maternal child health program. In informal conversation, he said that if they could use some of the resources of the WIC program and, at the same time, merge them with the funds of the maternal and child health care program, they could serve more people more effectively than treating the two programs as distinct and separate.

Ms. JARRATT. You have the recipient there at one place getting the attention that would be provided by multiple services.

JOBS BILL

Senator COCHRAN. We put some money in the jobs bill—I think $100 million—that is earmarked for the WIC program. How will that money be used, and when will it be distributed and made available to the States?

Mr. BRALEY. Mr. Chairman, there was a $100 million appropriation contained in the jobs bill for WIC. We have worked out a formula for allocating that money already, and the States have been notified how much additional funding they will receive. In general, each State is going to receive a 5-percent increase in their 1983 funding, which would account for a little over half of the $100 million. Then several need factors will be weighed for each State, and that is how the additional money will be put out. Those factors include the unemployment rate, number of low-birth weight infants born in the State, infant mortality rate, and also the number of children in the State below poverty. Those are the four factors to be used for allocating the additional money.

CSFP PILOT PROJECTS/APPROPRIATION

Senator COCHRAN. In the commodity supplemental food program, I know there were some pilot projects, specifically in Detroit, New Orleans, and Des Moines. This was something that stirred up a little controversy during our conference on our appropriations bill last year. What are the plans this year for any such pilot projects?

Mr. LEARD. Those projects will continue through another year with the $900,000 funding that has been provided for 2 years.

Senator COCHRAN. I also notice that you include a proposed change to combine the commodity supplemental food program with the WIC appropriation into one account. Why is that? Is that something about which you feel strongly?

Mr. LEARD. It is just efficiency.

Senator COCHRAN. Will there be any impact on the program? Will there be any changes in the program because of that change?

Mr. LEARD. No, sir, no changes.

PUERTO RICO BLOCK GRANT

Senator COCHRAN. How has the block grant program worked in Puerto Rico? Do you have any early readings on whether that has been successful, or have there been more problems than anticipated?

Mr. LEARD. It has been our finding that they are running a very fine, efficient program down there. The average monthly participation during the first 6 months was about 10 percent less than what might have been expected in the food stamp program. However, most of this decline was due to the initial conversion of the participants to the more restrictive eligibility requirements that Puerto Rico instituted. They also had a more intensive verification procedure, and this contributed to the decline in participation. However, all in all, we are seeing that this program is being run well. We are also seeing that a large majority of the checks are being cashed in food stores. It is too early to talk about a nutritional impact, of course, but based on what we have seen in the program, Puerto Rico is doing a good job.

Senator COCHRAN. Basically, are they getting cash in lieu of food stamps?

Mr. LEARD. Yes; they get a check in the mail, and they cash it. Of course, they are saving a lot of administrative costs and printing costs, things such as that.

Senator COCHRAN. Weren't there some cash-out programs, or had it been contemplated that there would be some cash-out programs? I remember that coming up in conversation as a controversial item. I don't think the House members liked the idea and might have written it out of the appropriation. Is my memory right on that?

Mr. LEARD. There is no longer a cash-out program. It was part of a dual program to look at some simplified application procedures and using some coupons and cash in lieu of coupons. We have taken all the cash out, and we are just looking at the simplified application in this demonstration project.

CHILD NUTRITION PROPOSED LEGISLATION

Senator COCHRAN. Have you already sent legislation to the Congress that would consolidate the school breakfast, child care, and summer feeding programs into one program?

Ms. JARRATT. Senator, it is in the final sign-off stage in the Department. It has cleared the Office of Management and Budget. Hopefully, the food stamp package will be along very shortly, too.

Senator COCHRAN. That, as well as the food stamp legislation, will go to the Agriculture Committee?

Ms. JARRATT. Yes; that's right.

Senator Cochran. Will that legislation include the transfer of the nutrition assistance aspect of the Head Start program and elderly feeding to Health and Human Services, or will that be separate legislation?

Mr. LEARD. There will be $76 million transferred to Health and Human Services for the Head Start portion of the child care program. It will be covered in the Head Start appropriation under HHS.

Senator COCHRAN. So, that is not a part of your request for this committee, but will be submitted in the request to HHS?

Mr. LEARD. That is correct, it is not a part of our package.

NEW ACTIONS/RULES

Senator COCHRAN. Last year, we talked about some of the new actions taken to devise changes in the application forms for the school lunch program—for free and reduced meals in schools. It had also been mentioned that there were people who were applying for, and receiving, free or reduced-price lunches—people who, under these new changes, would become ineligible. I understand that there have now been a reduction in participation and some cost savings attributable to the new regulations. Have you had any feedback from the States or local schools as to how these new regulations are working? Does this impose more paperwork on those who work with the program?

Mr. BRALEY. Senator, as a result of the 1981 Reconciliation Act, we have taken several steps to address the problem that we think existed in the school lunch program prior to that legislative action, which includes under-reporting of income by meal applicants. The changes that were put into effect directly as a result of the law include collection of social security numbers and a notification sent home to parents. We have also put those kinds of items on the application form. We saw some decline in free-meal participation last year which, we feel, is attributable to some of those changes.

In addition, we have published interim regulations for next year, which will require, for the first time, some income verification activity by local school officials. Three percent of all of the free and reduced applications, up to a maximum of 3,000 applications in each school district, must be verified. We think that this action will further reduce the problem of people receiving benefits to which they aren't legitimately entitled.

Senator COCHRAN. Is there any provision to reimburse schools for the cost of doing this work?

Mr. BRALEY. Mr. Chairman, as part of our 1984 legislative package we are proposing that food stamp offices at the State or local level become involved in this verification activity instead of the school officials. We have had many, many comments from the school people that they would prefer not to be in the verification business. Some would like to be, but I think it is fair to say that the majority would not. We are proposing to reimburse the food stamp offices to do the verification work when a school district chooses not to.

Senator COCHRAN. I have heard some complaints from parents who expect that they might be required to go down to the local food stamp office and sign up for free and reduced-price lunches for their children. They find this abhorrent, an imposition and a burden, as well as embarrassing. Is this going to be a requirement?

Ms. JARRATT. No, Mr. Chairman. The application process for the school lunch program will occur just as it does now. In other words, the school generates the letter to the parents and the school will receive the parents' response about the income statement. Then the school may go and verify 3 percent or 3,000 of the applications, or they may refer that income information to the food stamp office. They do not refer the parent or child to the office. It is the application that is the basis for the verification.

Senator COCHRAN. Well, how are they going to go about verifying it? Will they actually call the person to come down to the food stamp office and show a copy of their income tax return?

Ms. JARRATT. If the food stamp office does it, they will be able to match a social security number, because the food stamp application has a social security number on it. If the food stamp office also has the household's social security number as a food stamp participant, the children are automatically eligible for the school lunch program, so no further verification would have to be done on that kind of application. On the ones where there is no matched social security number, the food stamp office may use the wage match they use for regular food stamp verification. They may, indeed, call the employer of the parent, or they may ask for the household to supply a rent receipt or something of that nature. They may have a referral there, but parents would not have to go to the food stamp office, and the child would not be denied the benefit during the time of this verification. Under our regulations, which are separate and apart from the legislative package, the authorities have a 5-month period for the verification process. The administration does not visualize little children going down to the food stamp office, nor do we want to publicly identify the category of the school lunch program in which the child participates.

NUTRITION EDUCATION AND TRAINING

Senator COCHRAN. I notice, too, that there is no request in the fiscal year 1984 budget for the nutrition education and training program. As you know, this is a popular program among many people who feel that it provides important nutrition information in the schools curriculum and that it would be difficult to accomplish this without Federal support. How do you justify requesting the elimination of this program?

Mr. LEARD. Mr. Chairman, it was intended to be a program to assist the States in getting started. Also, the program in the past year was $5 million. This was such a small amount under the formula that we had to follow that many of the States received so little money, it was really not any help to them.

Ms. JARRATT. Mr. Chairman, I really believe that this program was designed to help get nutrition education and training underway in the States. More than $90 million has been appropriated since its inception. We believe that the seed money has been used and that changes in this area can be brought about. We are working to put out a bibliography that has been developed and can then be circulated. This will be done for the States, but we don't believe more money is needed to carry out any further development. I think the work will continue to go on.

EMERGENCY FOOD DISTRIBUTION

Senator COCHRAN. In the jobs bill, Congress provided $75 million from section 32 funds and $50 million in direct appropriation, for emergency food distribution programs. How will you implement the use of these funds?

Ms. JARRATT. Mr. Chairman, we are meeting with Deputy Secretary Lyng this afternoon. That has been discussed among the agencies, but we don't have a departmental review. We will inform you as quickly as we have it.

[CLERK'S NOTE.—Subsequent to the hearing, the following information was provided by the Food and Nutrition Service.]

Subsequent to this hearing, the Food and Nutrition Service took the following actions to implement the funding provisions of the Jobs Bill Act.

Each WIC State agency received a 5-percent increase over their current food grant plus a share of remaining funds from the Jobs Act appropriation. For this remaining share, the following calculations were made.

Indian State agencies received the same percentage portion of the remaining food funds that they received of fiscal year 1983 food grants. Each was given 35 percent of their total additional food funds for administration.

Regular State agencies received relative shares of the remaining funds on the basis of the selected need factors of number of children under 5 years below 100 percent poverty, number of unemployed, number of infant deaths, and number of births with low-birth weights. For administrative funding, each State agency received 24.8 percent of their total additional food funds.

Food and Nutrition Service regional offices were notified of the jobs bill grant increases on March 28, 1983, and immediately notified State agencies of funding increases.

Public Law 98-8 appropriated $75 million for the purchase and distribution of perishable agriculture commodities to States for use in areas of high unemployment. 7 CFR part 251 establishes the allocations to each area based on the following formula:

The five outlying areas (Virgin Islands, Samoa, Guam, Marianas, and Trust Territory) received a minimum allocation of $25,000 each. This resulted in a deduction of $125,000 from the total allocation of $75 million.

An index was developed using the average number of unemployed people in October, November, and December 1982. The index shows the ratio of State unemployed to National unemployed.

The remaining $74,875,000 was allocated to each of the States using this index.

Allocations by State, regional and national totals were published as appendix A to part 251 which was published on April 26, 1983.

Each State distribution agency will receive a grant which is a portion of $50 million appropriated by the Jobs Bill Act for State and emergency feeding organization storage and distribution costs.

The State agencies are required to make at least 20 percent of their portion of funds available to the local organizations for their storage and distribution costs, if such costs do not exceed 5 percent of the value of foods distributed by such organizations.

The State grants are based on the number of persons in households with income below the poverty level and the number of unemployed persons in the State.

Notification of State maximum grants was included in the attachment to the regulations as published on April 26, 1983.

[The following questions were not asked at the hearing but were submitted to the Food and Nutrition Service for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SPECIAL SUPPLEMENTAL FOOD PROGRAMS

Question: The Special Supplemental Food Program for Women, Infants, and Children (WIC) is intended to make specified nutritious food available to infants, children, and pregnant, postpartum, or breast-feeding women who are individually determined to be at nutritional risk and who meet certain income eligibility standards. Begun as a pilot program in 1973-74, the WIC Program has grown into an important component of the Federal Government's efforts to eliminate hunger and malnutrition and to protect the health of the Nation's population. In Fiscal Year 1982 the level of participation in WIC reached an all-time high of almost 2.5 million participants. The program has enjoyed extraordinarily broad popular and congressional support because it is believed to have a beneficial impact on the health, as well as on the physical and mental development, of a particularly vulnerable segment of society. In referring to this program and the school lunch program in recent testimony before a House committee, Secretary Jarratt called them "the cornerstone of our Child Nutrition efforts." Yet, the budget request for WIC and CSFP (Commodity Supplemental Food Program) together maintains the Fiscal Year 1983 spending levels. Without any increase whatsoever, does not this request actually mean reduced program participation, or at least a "hold" at current year levels?

Answer: In line with this Administration's policy of fostering a strong economic recovery, all domestic programs are proposed to be maintained at the Fiscal Year 1983 appropriation level. A slight decline in participation for Fiscal Year 1984 is anticipated. However, we believe that State agencies can continue to provide benefits to an increasing proportion of higher priority participants.

Question: How much funding would be required to support full participation in the WIC Program - - that is, to accommodate all applicants who are eligible?

Answer: Using more current data from the current Population Survey of the Bureau of Census and from the National Center on Health Statistics, we roughly estimate that nationally 10.5 million persons are economically eligible. The cost of supporting 10.5 million participants in Fiscal Year 1983 at $39.38 per person per month would be approximately $4.96 billion. The cost to support the same level of participants would increase to $5.18 billion in Fiscal Year 1984, at $41.11 per person per month.

Again, due to the lack of available information, nutritional need still cannot be included in the estimation process. If nutritional need could be considered, the funding required undoubtedly would be less.

Question: What was the cost of the program in 1982, and the estimate for Fiscal Year 1983?

Answer: In Fiscal Year 1982 the total cost of the WIC Program including $58.9 million of unspent funds from Fiscal Year 1981 and the cost of evaluation projects is estimated at $962.7

million. In Fiscal Year 1983 we are estimating the WIC Program to be $1,164.8 million including $4.8 million from unspent funds from Fiscal Year 1982 and the funds from the "Jobs Bill", P.L. 98-8.

In Fiscal Year 1982 the cost of the Commodity Supplemental Food Program including $480,000 for pilot projects for the elderly is estimated at $26.3 million. In Fiscal Year 1983 we are estimating the Commodity Supplemental Food Program to be $35.7 million including $3.1 million from unspent funds from Fiscal Year 1982.

Question: How many program participants were there in Fiscal Year 1982? During Fiscal Year 1983?

Answer: In Fiscal Year 1982 we had an average of 2,188,501 program participants per month in the WIC Program with an average of 126,366 program participants in the Commodity Supplemental Food Program. In Fiscal Year 1983, we are estimating an average of 2,246,990 proram participants in the WIC Program with an average of 135,024 program participants in the Commodity Supplemental Food Program. Participation in the WIC Program may increase an average of 50,000 to 100,000 per month depending on how States use the "Jobs Bill" funds.

Question: What percentage of those persons eligible actually participated in the program in Fiscal Year 1982? During Fiscal Year 1983?

Answer: The only estimate of the potentially eligible population we have is based on State agency information gathered in 1975 by the U.S. Bureau of Census, Survey of Income and Education. That survey estimated the potential eligible population to be approximately 8.87 million. However, the survey did not consider nutritional risk data and used only an economic indicator of need --e.g., the number of children under age 5 under 200 percent of poverty.

Using the potentially eligible figure of 8.87 million, 25 percent of those persons who were eligible actually participated in the program during Fiscal Year 1982. For Fiscal Year 1983, 27 percent of those persons who are eligible are participating in the program.

Using more recent data from the current Population Survey of the Bureau of Census and the National Center on Health Statistics, we roughly estimate that 10.5 million persons are potentially economically eligible for the program. Due to the lack of available information, the nutritional risk criteria still cannot be included in the estimation process. If nutritional risk could be considered, the number of persons potentially eligible probably would be less.

Based on the more current potential eligible figure of 10.5 million, 21 percent of those persons who were eligible participated in the program during Fiscal Year 1982. For Fiscal Year 1983, 23 percent of those who are potentially eligible are currently participating in the program.

Question: Congress recently provided $100 million for WIC in the "Jobs Bill". How and when will these funds be distributed?

Answer: The following describes how "Jobs Bill Act" funds will be allocated to WIC State agencies.

Each State agency will receive a 5 percent increase over their current food grant plus a share of remaining funds from the "Jobs Act" appropriation. For this remaining share, the following calculations were made.

- o Indian State agencies will receive the same percentage portion of the remaining food funds that they received of Fiscal Year 1983 food grants. Each will be given 35 percent of their total additional food funds for administration.

- o Regular State agencies will receive relative shares of the remaining funds on the basis of the selected need factors of number of children under five years below 100 percent poverty, number of unemployed, number of infant deaths, and number of births with low birth weights. For administrative funding, each State agency will receive 24.8 percent of their total additional food funds.

Food and Nutrition Service Regional Offices will be notified of the "Jobs Bill" grant increases next week, and State agencies will be notified immediately of funding increases.

Question: Your request includes a proposed change in appropriations language which would combine the WIC appropriation with the CSFP (Commodity Supplemental Food Program) appropriation into one account. Why is this change necessary?

Answer: Since WIC and CSFP both have similar objectives in providing supplemental nutritious food to pregnant, postpartum and breastfeeding women, infants and young children from low-income families it is more feasible to combine these similarly targeted programs into a single appropriation in order to simplify financial management.

Question: Will there be an impact on the programs themselves?

Answer: No, WIC and CSFP are two different programs providing different varieties of food benefits, and they will remain separate.

CSFP PILOT PROJECTS

Question: What are your plans for the CSFP pilot projects in Detroit, New Orleans, and Des Moines during the Fiscal Year 1984?

Answer: Within the next few months, each project will have received an average of $460,000 in project funds. The $900,000 in Fiscal Year 1983 funding appropriated by Public Law 97-370 are available for use in the projects through Fiscal Year 1984. The projects have several options for using these grant funds. Depending on the priorities of each project, the grantees can choose to serve large numbers of participants over a short period of time, or serve larger food packages, or serve lesser numbers of persons over a two year period, or use funds for a combination of these options. Each project operator must manage project monies in accordance with local needs and priorities, as well as grant requirements.

It is still too early to measure the success of these projects. Since they are still largely untested, the Department does not at this time have any plans to extend or expand them beyond their present performance period and funding level.

FRAUD AND ABUSE

Question: Does the Department have evidence regarding fraud and abuse in the WIC Program? What steps is the Service taking to combat fraud and abuse? How much does the Department believe can be saved through these efforts? How much will these efforts to combat fraud and abuse cost?

Answer: Yes, we do have evidence of vendor fraud and abuse in the WIC Program. This has been revealed in audits and investigations by FNS, OIG, and State WIC staff. However, we do not have sufficient data at this time to estimate the overall extent or cost of the abuse.

We have implemented a multi-phase effort to curtail and prevent vendor abuse. This includes issuance of tough new regulations which must be implemented by May 1983; provision of technical assistance and management guidance to States on improving vendor monitoring and sanctions; increased emphasis on compliance investigation techniques which have been successful in the Food Stamp Program; and funding of projects to upgrade computer screening systems.

We cannot currently estimate the possible savings associated with prevention of vendor abuse. Further, since the regulations allow for much flexibility in State implementation, we cannot accurately estimate the costs of implementation of the regulations. However, rough cost-benefit estimates from one State which implemented aggressive vendor monitoring indicated that there was a substantial benefit-cost ratio, on the order of $8 saved for each dollar spent. While this estimate may not be applicable to all States and may be very rough, it suggests the potential for significant cost savings through prevention of vendor fraud and abuse.

DELIVERY SYSTEMS

Question: Has the Department evaluated the cost implications of the WIC food delivery regulations which must be implemented by March 23, 1983? What does the Service estimate it will cost State and local WIC agencies to comply with these rules? Where will the administrative funds come from to finance such requirements as periodic review of food vendor qualifications (§246.10(g)), food vendoring training (§246.10(h)), maintaining of food vendors, including compliance visits and purchases (§246.10(i)), and control and reconciliation of food instruments (§246.10(1)(m))?

Answer: We have evidence that improved monitoring of vendor operations is highly cost-effective, but we cannot accurately predict the cost of the new regulations because different States may implement them in different ways and at different costs.

While we recognize administrative resource limitations of State agencies, information from our Regional Offices indicates that State agencies are able to implement the new regulations without exceeding their Federal administrative grants.

The WIC Food Delivery Systems Regulations were carefully designed to select the most cost-effective means of implementation. Many requirements such as vendor training and monitoring and control of food instruments, were in prior regulations, but were slightly revised to be more effective in the new regulations. The costs for these functions should not increase significantly. The new regulations allowed for the first time a tolerance level for reconciliation of food instruments, which should actually reduce administrative costs. FNS has provided ample technical assistance and manpower in certain areas which have been more difficult to implement, such as compliance purchases. Overall, while implementation of the new regulations may create small short term costs, they should save considerable Federal and State resources in the long term because of the prevention of fraud and abuse.

PRIORITY SYSTEM

Question: What measures has the Department taken or planned to ensure that available, limited WIC funding is used to provide benefits to those potentially eligible participants who are most in need? (i.e., targeting WIC benefits to those at greatest nutritional risk.)

Answer: USDA regulations require that when a local agency has reached its maximum caseload, new participants be selected using a nutritional risk priority system. The priority system stratifies people into six categories, with the most needy at the top and the least needy at the bottom, based on diagnosis by a health professional. The priority system is:

- Pregnant and breastfeeding women and infants with documented nutritional or medical disorders, such as anemia, low birth weight or high risk pregnancy.
- Infants under 6 months of women who participated in WIC during pregnancy or who were eligible to participate under Priority I conditions.
- Children with documented nutritional or medical disorders, such as low weight or anemia.
- Pregnant and breastfeeding women and infants with inadequate dietary patterns.
- Children with inadequate dietary patterns.
- Postpartum, non-breastfeeding women with nutritional risk.

PROPOSED LEGISLATION

Question: The Child Nutrition Programs and the Food Stamp Program, both administered by USDA, are slated for savings or reductions in the President's budget. In the Child Nutrition area, a general nutrition assistance grant is proposed to replace the School Breakfast, Child Care, and Summer Feeding programs.

For Food Stamps, several legislative proposals would result in savings totalling $766 million. How soon can Congress expect to receive a proposed legislative package, and if these proposed changes are enacted, will they alter USDA's ability to provide adequate assistance to those Americans who are truly in need?

Answer: The legislative package is in the final stages of clearance and will be sent to Congress in the next several weeks. We believe that our ability to serve poor Americans will be enhanced by these changes. The Administration's Fiscal Year 1984 budget contributes substantially to important goals shared by the Administration and Congress to:

- o concentrate Federal assistance on those who most need it by maximizing program savings while minimizing the effects on needy recipients;
- o streamline programs by simplifying administrative requirements and procedures thereby reducing error and the potential for fraud;
- o emphasize the responsibility of States by providing enhanced flexibility and incentives for effective and efficient administration; and
- o mitigate the growth in program costs as part of a government-wide initiative to reduce deficits.

The Federal government will continue to provide substantial support to various health and nutrition programs.

JOBS BILL

Question: Recently, the President signed the Jobs Bill which will stimulate jobs and give additional relief to the needy. What is your forecast for revised spending estimates by USDA for the various nutrition programs it administers?

Answer: The Jobs Bill appropriates funds for several nutrition programs. The $100 million provided for the WIC program, if fully utilized, should increase the fiscal year 1983 year end participation to 2.9 million. On an annualized basis for Fiscal Year 1984, this program level will cost about $1.4 billion.

We are estimating that the funds provided by the Commodity Credit Corporation for administrative costs associated with bonus commodities distributed in the Commodity Supplemental Food Program will total $1.5 million. The estimates for other commodity and administrative costs are also expected to rise by $75 million for surplus removal and $50 for distributing costs.

LEGISLATIVE CHANGES

Question: You are proposing a six-month delay in the cost-of-living increases. This will affect all child nutrition reimbursement rates which are scheduled to change July 1, 1983. What is the dollar savings associated with this proposed change?

Answer: The dollar change associated with a proposed six-month delay in the cost-of-living increases will save a total of

$66.1 million in the school lunch program including commodities. The school breakfast, child care food and summer feeding programs are proposed to be replaced by the General Nutrition Assistance Grant in the President's Budget; therefore there are no COLA savings assumed in these programs.

Question: Please define the impact of this change.

Answer: This will delay an approximate 6 percent increase in subsidy levels for four months of the school year (September to December). All meal types would be affected equally. No children receiving free meals would be affected since they make no payments for their meals. It is possible that meal prices for paid and reduced price meals could increase slightly, but the impact on participation would be minimal.

Question: Another proposed legislative change is the transfer of the nutrition assistance aspects of the Head Start and Elderly Feeding programs to agencies who administer the basic programs. What are the proposed savings associated with each of these changes?

Answer: We are not anticipating a savings as a result of these proposed transfers. The funding amounts would simply be transferred out of the USDA budget and into the DHHS budget. States may have some reduced costs from only having to deal with one Federal agency rather than two.

Question: Are there other programs, such as Head Start and Elderly Feeding, that are administered by other agencies, for which funds are provided from the FNS budget? Please identify.

Answer: No, sir, the Head Start and Elderly Feeding Programs are the only two which operate in this manner.

Question: Please explain why these programs are and have been partially funded under the FNS budget.

Answer: Funds for foods for Head Start recipients have been included in the child care food program for many years as these children are in non-profit child care centers. Therefore, Head Start has been partially funded under the FNS budget.

The Elderly Feeding Program began in USDA as a means of providing additional support to Elderly Nutrition Programs through donated agricultural commodities. The legislation was changed to allow for the option of choosing cash or commodities. Currently most States have opted to receive cash in lieu of commodities so that the percentage breakdown is approximately 90 percent cash, 10 percent commodities.

Question: The third change is to increase the responsibility and authority of States to provide verification of free and reduced-price school lunch applications by food stamp offices. Please explain how this would be done. Would it be up to the States or would you suggest how this can be done?

Answer: In an effort to reduce error and deter fraud, the Department is proposing to transfer income verification functions for school meals to welfare offices. Food Stamp offices would receive reimbursement for their services from enhanced State administrative expenses. We are concerned that our proposal is being widely misinterpreted. We are not proposing that children or their parents be sent to food stamp offices to be certified to receive free or reduced-price meals. We will allow State and local school officials to take advantage of verification systems and expertise that exist in food stamp offices. Our proposal will allow States to design verification systems that best meet their needs using the resources of both the education and welfare systems.

Question: Don't school lunch applicants now have to furnish social security numbers for cross checking or matching? Isn't this procedure working satisfactorily?

Answer: The Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, required that the social security numbers of all adult household members be provided on free and reduced price meal applications. Since the law and accompanying regulations were published after the beginning of the 1981-82 school year, school year 1982-83 has been the first school year that this provision has been implemented. Thus far, it seems to be working satisfactorily.

Question: What is the savings associated with this legislative change?

Answer: The estimated savings associated with this legislative change in Fiscal Year 1984 is $20.8 million. This includes savings in the school lunch program of cash and commodities offset by an additional expenditure of State administrative expense funds to defray the additional administrative costs.

Question: Would FNS reimburse the States for this? What would be the cost?

Answer: Yes, FNS would reimburse the States for additional administrative costs. We estimate this would require an additional $19 million in State administrative expense funds.

INCOME VERIFICATION

Question: Recently, rules were published in the Federal Register requiring school districts to verify a sample of free or reduced-price meal applications. As I understand it, these rules will affect the school lunch, school breakfast, and special milk programs. Will you please explain the objectives of these new regulations.

Answer: The objective of the new regulations is to reduce fraud and abuse by requiring school food authorities to verify free or reduced price applications. A study by the Department's Office of the Inspector General found that a significant level of free and reduced price meal benefits were granted erroneously each year due to fraud and abuse. In response to this finding, the Omnibus Budget Reconciliation Act of 1981 contained several provisions which were intended to address program abuse, including one which gives the Secretary authority to require school food authorities to undertake verification of free and reduced price meal applications. Prior to the passage of this Act, school food authorities could verify the information "for cause," which limited verification to those situations in which school officials had reason to believe the information on the application was incorrect.

Question: Will you stipulate how these verifications are to be made or can the States use any method?

Answer: Written evidence, such as pay stubs, wage envelopes, and social security benefit letters, is to be used as the primary source of evidence. If written evidence is not available, the school may ask the family to provide collateral contacts. For food stamp recipients, documentation that they participate in the Food Stamp Program is sufficient.

Question: Have you estimated the savings associated with these new rules?

Answer: The verification rules are in partial response to the provisions of Public Law 97-35 regarding the documentation and verification of income. Regulations implementing application procedures, such as the provision of social security numbers and the documentation of income, have been separately published. Our original estimate of savings for the entire range of documentation/verification provisions was $100 million. At this stage, it is difficult to estimate to what extent program savings that have occurred can be attributed specifically to the revised application procedures currently in practice; and the impact of required verification procedures will not begin until school year 1983-84. We are, however, conducting a study of verification procedures, and Phase II of the Income Verification Pilot Study, involving the testing of various verification procedures under controlled conditions, should give us a good indication of the savings impact associated with the verification requirement.

SCHOOL LUNCH PARTICIPATION

Question: It is my understanding that total participation in the school lunch program averaged 23.4 million for the month of December, 1982, which is slightly down over a year ago. However, in certain areas of the country, participation was up -- Southwest, Southeast and Mountain Plains -- and in those areas where participation was up, free lunch participation was up strongly. Have you made any study of how these statistics compare to the rate of unemployment? In other words, are we getting more applications for free or reduced price lunches from the areas of high unemployment?

Answer: There has been no recent analysis of unemployment rates and participation in the school lunch program. Historically however, there has been no correlation between unemployment rates and school lunch participation. There is the possibility that some increases in free meals could be due to a rise in unemployment as more people take advantage of free meals provided by the school lunch program.

Question: What effect or impact is high unemployment having on participation in the other programs of FNS?

Answer: The Food Stamp Program, given its size and the absence of categorical restrictions on participation is very sensitive to the general economic health of the nation and to the rate of unemployment in particular. A 1 percent change in the unemployment rate can change program costs by as much as $600 million a year. The high levels of unemployment seen in recent months have certainly contributed to the growth of the Food Stamp Program. We have not seen a similar historic relationship between unemployment and participation in the Child Nutrition Programs or in WIC since it is not an entitlement program.

Question: How many students are not participating in the school lunch program this year?

Answer: Data available to us shows that there are approximately 44.5 million elementary and secondary school children nationwide. An average of 23.3 million of these students participate in the National School Lunch Program leaving approximately 21.2 million children not participating in the Program.

Question: Can you explain why they are not participating? Is it because of legislative changes, prices too high, etc.?

Answer: Since the National School Lunch Program is a voluntary program, some schools choose not to participate. Other schools, such as profit making schools and private schools with tuition of over $1500 per year, are prohibited from participating by law. Students in schools that do participate in the program sometimes prefer to bring lunches from home, eat off campus, or skip lunch. Other factors which have affected participation are declines in school enrollment and consolidations and closings of local schools; and efforts toward increased accountability to ensure that only eligible children receive free or reduced price lunches.

Question: Are schools that are participating in the school lunch program using bonus commodities?

Answer: Schools have consistently made very good use of the bonus commodities we have made available to them. They have been able to utilize increased quantities of these items through the use of processing contracts which convert commodities into highly desirable items used in the school lunch programs.

Question: What is FNS doing to encourage the use of bonus commodities in the school lunch program? In other programs?

Answer: Very little encouragement is needed at this time, since the use of bonus commodities has consistently increased from year to year. States are taking as much of the bonus commodities as they can use without waste. We have provided State agencies with commodity fact sheets that can be distributed to the programs using the bonus commodities. They include information on storage guidelines and recommended recipes. We are also encouraging States to enter into processing contracts utilizing donated commodities whenever possible.

Question: Recent news reports have indicated that participation in a school lunch program in Tennessee had increased from 75 percent last year to 82 percent this year, largely because the school district buys food locally with letters of credit rather than accepting Government surplus foods. Are you aware of this particular case? Is this typical of the school districts that are using letters of credit in lieu of commodities? Please explain.

Answer: We are aware of the news reports in question. However, whether the increase in school lunch participation in this particular school district is largely due to letters of credit is not clear. The school food service director herself has suggested that the introduction this year of the "offer versus serve" option in her elementary schools may be a much more telling factor than letters of credit.

The effects that cash and commodity letter of credit alternatives to commodity donation have upon lunch program participation is a central issue in our pilot project evaluation. An accurate investigation of this issue, however, requires careful consideration of all factors affecting lunch participation over a long period of time. This is our plan, and we will present our findings in the Congressionally-mandated pilot project report in December 1984.

Question: Please bring us up to date on the cash-in-lieu of commodities pilot projects.

Answer: The Study of Alternatives to Commodity Donation in the National School Lunch Program, mandated by the Fiscal Year 1981 Appropriations Act, was initiated this past July. Ninety-eight school districts representing 29 States are participating in the project--34 as cash-in-lieu sites; 32 as commodity letter of credit sites; and 32 as comparison sites that continue to operate under the existing commodity donation program. Since the project began, the following activities have occurred:

o Data have been collected, from all 98 school districts and 29 States, for the baseline year (i.e., school year 1981-82) on food purchases and commodity donations, food inventories, program operating characteristics, student participation, operating costs, and food service characteristics. These data, along with information to be collected for the next two years, will be used to address issues raised by Congress in the original mandate for this study, including:

-- impacts on school food purchasing behavior;
— impacts on federal, State and local costs;
-- impacts on students both in terms of meal prices and nutritional benefit;
-- impacts on program participation; and
— the impact on the agricultural economy.

o Work has also begun on the collection of data similar to that collected in 1981-1982, for the first year of the pilot project, i.e., school year 1982-83. This task is expected to be completed by October 1983.

- o Work has begun on the preparation of the collected data for statistical analysis and, in some cases, preliminary analysis has been started using the baseline data.

- o Inspectors from the Agricultural Marketing Service have completed the first of three inspection tours to obtain information on the grade and quality of products being purchased by participating school systems.

As required by Congress, an Interim Report on this evaluation will be completed by December 1983; a Final Report covering the full period of the pilot project will be available in December 1984.

GENERAL NUTRITION ASSISTANCE GRANT

Question: Again this year you are requesting funding for a proposed General Nutrition Assistance Grant of $535 million. This consolidates Federal spending for child care food, summer food and school breakfast programs into a block grant to States. As I understand it this would provide $217 million less than the sum necessary to operate the programs separately. You made a similar request last year, which Congress rejected. Do you feel there is any possibility it would be approved this year?

Answer: We believe there are strong reasons for making a change. It is the most appropriate use of funds now available for the Breakfast, Child Care, and Summer Feeding Programs. These programs have varying types of problems that need to be addressed including for some of the programs, poor targeting to the needy and the potential for abuse. The Department considered making a series of incremental changes to each program but instead decided, through the General Nutrition Assistance Grant, to provide the flexibility to States to make the changes they believe are the most useful for their jurisdictions.

Question: Have you made any kind of study or effort to determine if States can afford to continue these programs on their own, even with a share of the block grant?

Answer: We do not expect that States will carry on the programs exactly as they exist now. Some changes will have to be made, but it will be up to the States to decide what changes will be made and to design programs that will best serve the needs of their populations.

Question: The General Accounting Office (GAO) recently released a study which asserts that block grants have produced little in administrative cost savings. Have you had a chance to look into this aspect of block grants? What is your response to this?

Answer: The primary reason for our proposal of the General Assistance Grant is not for administrative efficiencies, but rather to allow States the flexibility to make substantive changes to their child nutrition programs rather than have the Federal government propose a large number of individual incremental changes to each program.

However, we believe that some administrative savings are achievable. The current programs have many complex reporting procedures that grant programs experience. A block grant will eliminate the reporting complexity that now exists.

Question: How will the funds provided in the grant program be distributed to the States? Is there some type of formula that will be used to determine how much each State will receive?

Answer: Funds provided in the grant program will be distributed to the States based on percentages calculated by prorating Fiscal Year 1982 State-by-State funding data against the 1984 allocation. A chart showing Fiscal Year 1984 amounts and applicable percentages follows.

BUDGET INFORMATION FOR STATES FOR PROPOSED NEW AND MODIFIED BLOCK GRANTS AND GRANT CONSOLIDATIONS

State/Territory	FY 1984 (000) New Amounts	1984 State Estimated % of Total Based on Program Formula
Alabama	$ 15,510	2.899 %
Alaska	1,391	0.260
Arizona	5,746	1.074
Arkansas	5,248	0.981
California	62,274	11.640
Colorado	7,383	1.380
Connecticut	3,531	0.660
Delaware	1,664	0.311
Florida	23,588	4.409
Georgia	18,463	3.451
Hawaii	2,386	0.446
Idaho	733	0.137
Illinois	18,672	3.490
Indiana	5,420	1.013
Iowa	2,750	0.514
Kansas	3,119	0.583
Kentucky	11,101	2.075
Louisiana	11,684	2.184
Maine	1,830	0.342
Maryland	6,623	1.238
Massachusetts	11,444	2.139
Michigan	16,296	3.046
Minnesota	10,331	1.931
Mississippi	16,328	3.052
Missouri	8,084	1.511
Montana	1,621	0.303
Nebraska	2,076	0.388
Nevada	1,107	0.207
New Hampshire	883	0.165
New Jersey	15,558	2.908
New Mexico	4,526	0.846
New York	56,303	10.524
North Carolina	20,309	3.796
North Dakota	1,653	0.309
Ohio	17,928	3.351
Oklahoma	5,955	1.113
Oregon	3,242	0.606
Pennsylvania	16,318	3.050
Rhode Island	1,792	0.335
South Carolina	11,155	2.085
South Dakota	1,824	0.341
Tennessee	10,422	1.948
Texas	43,372	8.107
Utah	2,461	0.460
Vermont	353	0.066
Virginia	7,586	1.418
Washington	9,186	1.717
West Virginia	6,441	1.204
Wisconsin	4,055	0.758
Wyoming	738	0.138
District of Columbia	2,359	0.441
American Samoa	530	0.099
Guam	503	0.094
N. Mariana Islands	273	0.051
Puerto Rico	11,144	2.083
Trust Territory (excl. NMN)	1,236	0.231
Virgin Islands	492	0.092
Indian Tribe Set Aside	--	--
Total	535,000	100.000 %

Question: What kind of comments have you received from the States in regard to your proposed General Nutrition Assistance Grant?

Answer: Since the legislation is just now being submitted to the Congress, State officials have not had an opportunity to thoroughly analyze the specifics of our proposal.

Question: You are proposing a decrease of $7.5 million in the appropriation for State administrative expenses. Why are you not proposing to transfer this amount to the new grant program?

Answer: We believe that the $535 million provided contains adequate funds for both program and administrative activities. We expect that States may incur less administrative costs under the new grant program than they do now because complicated reporting requirements will be eliminated and because other administrative efficiencies may also be made by the States.

NUTRITION EDUCATION AND TRAINING

Question: You are again requesting the elimination of the Nutrition Education and Training program. As you know, this is a popular program. What is your justification for eliminating the NET program?

Answer: The NET program was begun to provide seed money for nutrition education. Since 1978 nearly $95 million has been provided and has successfully initiated State nutrition education efforts. It is now time for States to take over the program and decide what resources to provide for it.

Question: Do you believe the schools will continue their nutrition curriculum without Federal support?

Answer: At this time we do not know whether schools will continue their nutrition curriculum without Federal support. It will be up to the States to assess the effectiveness of their programs and to decide what aspects of the NET program to fund. Local jurisdictions may already be supplying support for this effort. This support should continue.

Question: How was the $5 million appropriated in Fiscal Year 1983 distributed by State?

Answer: The allocation of Fiscal Year 1983 Nutrition Education and Training funds follows. Please note that New Mexico, Wyoming and Guam are not participating in the program. Funds have been set aside for them. In the event that they decide to participate in Fiscal Year 1983, funds will be prorated for that portion of the year in which they participated.

STATE	NET Funds
ALABAMA	$ 73,069
ALASKA	50,000
ARIZONA	50,000
ARKANSAS	50,000
CALIFORNIA	409,771
COLORADO	51,324
CONNECTICUT	55,506
DELAWARE	50,000
DISTRICT OF COLUMBIA	50,000
FLORIDA	152,868
GEORGIA	103,186
GUAM	50,000
HAWAII	50,000
IDAHO	50,000
ILLINOIS	208,444
INDIANA	101,082
IOWA	51,478
KANSAS	50,000
KENTUCKY	65,053
LOUISIANA	82,945
MAINE	50,000
MARYLAND	75,276
MASSACHUSETTS	102,771
MICHIGAN	181,314
MINNESOTA	73,459
MISSISSIPPI	50,000
MISSOURI	85,543
MONTANA	50,000
NEBRASKA	50,000
NEVADA	50,000
NEW HAMPSHIRE	50,000
NEW JERSEY	130,134
NEW MEXICO	50,000
NEW YORK	302,960
NORTH CAROLINA	107,563
NORTH DAKOTA	50,000
OHIO	195,066
OKLAHOMA	53,285
OREGON	50,000
PENNSYLVANIA	201,669
PUERTO RICO	69,445
RHODE ISLAND	50,000
SAMOA, AMERICAN	50,000
SOUTH CAROLINA	59,465
SOUTH DAKOTA	50,000
TENNESSEE	81,633
TEXAS	272,579
TRUST TERRITORY	50,000
UTAH	50,000
VERMONT	50,000
VIRGINIA	95,211
VIRGIN ISLANDS	50,000
WASHINGTON	71,526
WEST VIRGINIA	50,000
WISCONSIN	86,375
WYOMING	50,000
CNMI	50,000
TOTAL	$5,000,000

Question: Do you have any idea which States would terminate this program if no Federal funds were received in 1984?

Answer: At this time we have no specific information on which States might terminate the NET program if no federal funds are made available. However, you should be aware that some NET-type activities would continue to be eligible for Federal support even if the program is ended. For example, State administrative expense funds can be used to support the salaries and expenses of NET coordinators and nutrition educators.

STUDIES AND SURVEYS

Question: Please provide a list of what the Fiscal Year 1983 appropriated funds will be used for and what is expected to be for Fiscal Year 1984.

Answer: The following table indicates the actual and planned expenditures of Section 6 funds for Child Nutrition Program studies and surveys.

	FY '83 ($000)	FY '84 ($000)
National Evaluation of School Nutrition Programs	30	- 0 -
Assessment of impacts of lunch and breakfast participation; development of statistical models that forecast participation		
Alternatives to Commodity Donation in the National School Lunch Program		
Demonstration operations	513	550
Evaluation	700	316
Computerized commodity conversion system (assessment of agricultural impacts of donation alternatives)	495	90
Interagency agreement with Economic Research Service to conduct agricultural impact analysis	132	132
Interagency agreement with Agricultural Marketing Service to conduct food quality/grade analyses	30	20
Survey of School Food Purchases		
Collect data on foods purchased or received by school to estimate impacts of National School Lunch Program and Commodity Donation Programs on agricultural economy	160	271

Income Verification Demonstration Project		
Development and assessment of alternative assurance procedures for school meal applications	100	- 0 -
School Nutrition Programs Participation Update		
Update and operate existing statistical models which forecast school nutrition program participation rate under various options	200	900
Nutritional Technical Services	110	191
Techncial Assistance to support State and local operations in the School Lunch and Commodity Donation Programs		
TOTAL	2470	2470

SPECIAL MILK PROGRAM

Question: Last year, you proposed the discontinuance of the special milk program. But this year you have requested funding for this program. Why didn't you try to discontinue this program this year?

Answer: In the past, there was some overlap in funding between the National School Lunch Program and the Special Milk Program. The Omnibus Reconciliation Act of 1981, P.L. 97-35, eliminated the overlap by providing Special Milk Program funding for only those schools that are not participating in the School Lunch Program. Primarily as a result of this change, along with the continuing dairy surpluses, the decision was reached to continue the less costly Special Milk Program.

Question: You indicated in your statement that there will be an unobligated balance of $8.5 million in anticipated carryover funds from Fiscal Year 1983. Will you be submitting a rescission proposal for this amount? If not, why not?

Answer: We will not be submitting a rescission proposal in the Special Milk Program for the $8.5 million carryover. The Special Milk Program is a two-year account; therefore, these funds will remain available through Fiscal Year 1984. The new obligational authority we are requesting for Fiscal year 1984 has been reduced from what it otherwise would have been to take into account the funds available from Fiscal Year 1983.

CHILD NUTRITION PROGRAMS

Question: How many child nutrition programs are administered by FNS, rather than being administered by States?

Answer: The Food and Nutrition Service Regional Offices administer the National School Lunch Program in 1,030 schools in 13 States, the School Breakfast Program in 585 schools in 13 States, and the Special Milk Program in 333 schools in 16 States. They also administer the Child Care Food Program in 8,721 institutions in 10 States and the Summer Food Service Program for 1,801 sponsors in 17 States.

Questions: Please explain the policy in regard to FNS administered programs.

Answer: The FNS regional offices administer the programs with respect to nonprofit private schools and institutions in any State wherein the State educational agency is not permitted by law to disburse Federal funds paid to it under the Act to such schools, or to match Federal funds paid with respect to these schools. These schools are administered by the regional offices in the same manner as are schools administered by State agencies. Original authorizing legislation for the Child Care Food Program and the Summer Food Service Program allowed any State which did not want to administer those programs in their State to turn it over to the regional office. However, recent amendments prohibit regional offices from administering the programs in States in which they had not been administering the programs prior to October of 1980.

Question: Do you have any data to show which is more efficient--State administration or Federal administration?

Answer: While no specific data exist, we believe that States can more efficiently administer programs for their people, certainly more so than Federal agencies. States have less of an area to administer than do Federal agencies and they best know what is needed by the people of their State.

ELDERLY FEEDING PROGRAM

Question: Please explain why the Department is again legislatively proposing the transfer of the Elderly Feeding Program to the Department of Health and Human Services.

Answer: Transferring the nutrition assistance aspects of the Elderly Feeding Program to the Department of Health and Human Services will help to streamline the administration of the domestic assistance programs while maintaining 100 percent of the Federal commitment to nutrition assistance to the elderly. The change we are proposing will concentrate Federal resources in one Department so that they can be better managed. Currently, about 90 percent of the funds appropriated for this program is provided to the States in the form of cash reimbursements, not commodities. Thus, the change would be easily accommodated. Many State agencies on aging prefer to buy locally produced commodities and have welcomed the opportunity that cash reimbursements afford them. In addition, cooperating State agencies will find it easier to deal with one Federal agency rather than two. Further, because this program is 90 percent cash, the Department will not be giving up important outlets for its commodity distribution program.

Question: Will there be any impact on the participation level if this transfer is approved?

Answer: The intent of the transfer is not to cut the program but to streamline the administration of the program. It will be easier for State agencies to deal with one Federal agency rather than two. We do not expect a decline in participation as a result of this change.

Question: To what extent have surplus dairy commodities been available to the elderly?

Answer: In the special distribution program, the Department allowed States to establish their own income eligibility standards for participation in the program. Most States chose other Federally assisted financial, food, medical or energy assistance program standards. Although we do not have data on participation, we understand that most elderly persons have been able to qualify for the foods.

Additionally, in Fiscal Year 1982 over 4 million pounds of surplus foods valued at $6,116,150 were made available to Older Americans Act nutrition programs for use in the preparation of meals. These foods were provided in addition to the program entitlements.

Question: Does this proposal eliminate commodity purchases in favor of cash-in-lieu of commodities.

Answer: The proposal would enable States to continue to receive donated foods if they desire. The Department would be able to continue to buy foods for them through an arrangement for a fund transfer between the Department of Health and Human Services and USDA. The bonus items being provided over and above the earned entitlement would also continue to be available.

Question: Please bring us up to date on the pilot supplemental food projects for the elderly. What is the status of these projects?

Answer: There are now three elderly feeding pilot projects operating in Des Moines, Detroit and New Orleans. Of the $1,380,000 appropriated for these projects, $705,000 has been distributed for administration and purchase of donated commodities. The Department intends to offer the remaining $675,000 to the three projects for their use through Fiscal Year 1984.

The projects are serving between 1,440 and 2,000 low-income elderly persons per month. Many of these elderly persons are homebound and are able to participate in the program because food packages are delivered directly to their homes by volunteers. The food packages contain the same commodities as are contained in the Commodity Supplemental Food Program food packages, including bonus commodities such as cheese, butter and honey.

FOOD DONATIONS PROGRAM

Question: The cost of food packages distributed on Indian Reservations is $37.78 per person while food packages distributed in the Pacific Islands will average $16.23. What accounts for this difference?

Answer: The food packages were developed through close coordination among USDA, the Pacific Islanders and the Indians.

Because of the different cultural dietary habits of the two groups, the commodities they requested differ substantially. The Pacific Islanders have requested a greater proportion of lower-priced commodities, such as rice, in their package. Therefore, the package cost for the Pacific Islands is lower than that for the Indians.

Question: Please explain why you have a $3.4 million unobligated balance in Fiscal Year 1983?

Answer: The unobligated balance in this program results from a downward revision in the participation estimates as well as the use of bonus dairy products provided by the Commodity Credit Corporation.

Question: Is the Food Donations Program still operating in the Northern Marianas? Please explain.

Answer: The Food Donations Program ended in the North Marianas in June 1982. The government of the Marianas felt that program recipients had come to rely heavily on the donations program while local food production had declined. Additionally, delays and the cost of shipping commodity items to the Pacific Islands reduced the effectiveness and efficiency of the program. Also, Public Law 96-597, approved December 24, 1980, provided the Secretary of Agriculture with the authority to extend at his discretion, programs administered by the Department of Agriculture to the Northern Mariana Islands. This law authorized the Secretary to waive or modify any statutory requirements relating to the provision of assistance under such programs to the needs of the Marianas. As a result of this legislation, a Nutrition Assistance Program was provided to the Northern Marianas in July 1982 and $925 thousand was made available for the period of July 1, 1982 through September 30, 1982. The Fiscal Year 1983 budget includes $3.7 million which will cover the cost of the program for the fiscal year.

CHARITABLE INSTITUTIONS

Question: What are your plans for commodity donations to charitable institutions and summer camps in 1983 and 1984?

Answer: As you know, there are no funds appropriated for commodity distribution to charitable institutions (CI) and summer camps (SC). However, the Department has agreed to donate grains, dairy and oilseed products to those programs again in 1983. These foods are also expected to be available to CI's and SC's in 1984. In addition, a number of other commodities purchased under surplus removal programs were also offered to CI's and SC's. Foods purchased under this authority and donated to domestic outlets as a bonus were dried pitted prunes, dry beans, applesauce, raisins, commercial pack frozen turkeys and dehydrated potatoes. Grapefruit juice is expected to be purchased in the near future.

FOOD BANKS

Question: What are your 1983 and 1984 estimates for commodity donations to food banks?

Answer: The Department is currently providing between 30-35 million pounds of cheese per month and will continue to provide some cheese for the forseeable future. Butter is currently being provided in the amounts that States order at a rate of approximately 24 million pounds per month. In addition, we are taking orders against the 12 million pounds of nonfat dry milk, 5 million pounds of rice and 5 million pounds of corn meal that are available.

Public Law 98-8, commonly referred to as the "Jobs Bill", contains several provisions for future commodity donations. This law provides that commodities acquired by the Commodity Credit Corporation that are in excess of quantities needed for the fiscal year to carry out a payment-in-kind system (PIK), maintain the United States' share of world markets, and meet international market development and food aid commitments, shall be made available to eligible outlets. The Department will be making these excess commodities available in Fiscal Year 1983 when it is determined which commodities are in excess.

The "Jobs Bill" also appropriates $75 million to the Department for surplus removal operation in connection with perishable commodities. These funds will be used to acquire and distribute surplus agricultural commodities for use in cooperative emergency feeding facilities for indigent persons in areas of high unemployment.

The amount and availability of commodities for donation to food banks in Fiscal Year 1984 is at this point unknown. Given the current outlook on dairy, we can anticipate that dairy products will be in excess. To speculate at this point on any other items would not be warranted.

JOBS BILL

Question: In view of the recent passage of the Jobs Bill which contained additional monies for surplus food distribution, have you had a chance to review and revise your estimates under this distribution program?

Answer: As of today, we have not had a chance to review or revise our estimates for the impact of this legislation.

DAIRY SURPLUS DISTRIBUTION

Question: The Agriculture and Food Act of 1981 requires the Secretary of Agriculture to reduce Government inventories of dairy products acquired under the dairy price support program. One way USDA has attempted to do this is by giving cheese and butter away to needy people. USDA's Food and Nutrition Service administers the Federal Government's effort to make the cheese and butter available to the Nation's needy. USDA provides the surplus food to the States, and local govenments and private oganizations actually distribute the food.

The States are responsible for determining eligibility criteria, the amount of food individuals may receive, and in most cases, the frequency of distribution. USDA provides no formal guidance on these matters. As a result, there are substantial variances in the amounts of products States have distributed per "needy person" (people with incomes below the poverty level). Also some local governments have not participated in the dairy surplus distribution. These circumstances raise a question as to whether this outlet is being used to its full potential as a means of reducing dairy surplus inventories.

Please describe your agency's involvement in the cheese and butter distribution.

Answer: The Food and Nutrition Service coordinates the distribution of surplus commodities. We establish program requirements and work with States in setting up their distribution systems. Once a State agency has entered an agreement with us, we arrange with the Agricultural Stabilization and Conservation Service (ASCS) to deliver the foods to the State.

FNS staff works with States on a continuing basis to ensure that orders for commodities do not exceed either our supply or the State's ability to effectively manage deliveries. Currently, we are assisting States in meeting demands for more food by arranging for processing and/or packing contracts which are reimbursed by USDA. It is our role to assure that foods reach the right places, in the right amounts, in a timely manner.

Question: What is the States' role in the distribution process?

Answer: An agency within the State is responsible for the administration of the program. This includes determining the eligibility of food banks and other organizations to distribute the foods. Also, these States agencies establish the eligibility criteria for determining needy persons. They coordinate the ordering and delivery of the foods to specified locations. The degree of sevices beyond that, such as transportation to and storage at or near the distribution sites, varies from State to State.

Question: I understand that some localities have not participated in the cheese and butter distributions. What information do you have on the extent of the reasons for non-participation?

Answer: The special distribution program in most States has been dependent upon the support of food banks and other private organizations. The majority of the organizations that have participated have been outstanding in their distribution efforts. Generally speaking, most areas appear to have regular periodic distributions. However, in less populated areas, local organizations willing to sponsor the program may not be available, or may be too distant from some of the needy.

Question: I understand that the frequency of the cheese and butter distributions vary greatly from State to State. For example, some States have distributed dairy products on a continuous or monthly basis, while other States have held only three or four distributions since the program began. Why have some States had infrequent distribution, and what if anything can be done to have these States distribute the dairy products more frequently?

Answer: The Department has met with State governors and other officials to strongly endorse the development of State plans for frequent state-wide distributions. However, some States and local organizations have been unwilling to commit resources to meet needs for an ongoing effort. With the recent enactment of the Temporary Emergency Food Assistance Act of 1983, whereby up to $50 million has been made available to States and/or local levels for storage and transportation costs of surplus foods, we believe that most States and local organizations will agree to more frequent distributions.

Question: It is my understanding that the amount of cheese States have distributed per needy individual varies from State to State. For example, while some States distributed as little as 2.5 pounds of cheese per individual at or below the poverty level in 1982, other States distributed as much as 34 pounds per needy individual. How does the Department explain this wide variance? Does the fact that some States have distributed much less cheese than others indicate that there is a much greater potential for providing surplus dairy products to needy individuals?

Answer: The special distribution program has been dependent upon State and local government support and volunteer efforts. Accordingly, each State was given the latitude to determine the frequency of surplus food distributions. With the Federal administrative funding of up to $50 million, recently enacted in the Temporary Emergency Food Assistance Act of 1983, we anticipate that all States will be able to increase the frequency of distributing surplus foods to the needy.

DISTRIBUTION OF COMMODITIES

Question: Secretary Block recently announced that USDA will begin providing Government stocks of corn meal, rice, and nonfat dry milk to States for distribution to low-income families. Please describe the Food and Nutrition Service's (FNS) involvement in the distribution of these additional commodities.

Answer: FNS is responsible for the domestic distribution of commodities such as corn meal, rice, nonfat dry milk, cheese and butter. FNS coordinates the distribution between the Agricultural Stabilization and Conservation Service and the individual States, provides technical assistance and guidance to the States, and, on a regular basis, monitors quantities ordered and distributed.

Question: Will the distribution of these commodities be handled in the same manner as the surplus butter and cheese?

Answer: The distribution of corn meal, rice and nonfat dry milk will be handled in the same manner as the surplus butter and cheese. FNS will make the commodities available to the States as quickly as the food can be processed and put into household size packages. The States will provide the commodities to nonprofit charitable institutions and food banks for distribution.

FOOD STAMP LEGISLATIVE PROPOSALS

Question: The Administration is proposing several legislative changes which, if enacted, you estimate will result in savings totalling $766 million. What are these proposals, and the rationale for them?

Answer: The proposals are as follows:

- Delay Thrifty Food Plan COLA -- Freeze the amounts of the Thrifty Food Plan at current levels ($253 effective October 1, 1982) through April 1, 1984 -- $32 million savings in 1984.

- Simplified Deductions -- Increase standard deduction to $140, eliminate excess shelter deduction, permanently cap dependent care deduction at $115, replaced 18 percent of earned income deduction with a flat $75 deduction for full-time workers (prorated for part-time workers) -- $326 million savings in 1984.

- Household Definition -- All persons who live under the same roof would be considered to be a single household, with certain exceptions -- $70 million savings in 1984.

- Categorical Eligibility/Simplified Benefits -- This provision would provide for categorical eligibility and simplified benefit determination for food stamp households, all of whose members are certified as eligible for or are receiving AFDC payments -- $70 million savings in 1984.

- Community Work Experience -- This provision would require the performance of public service work as an eligibility requirement for all household members subject to the current work registration and exempt from work registration solely because of receipt of unemployment insurance -- $90 million savings in 1984.

- Error Rate Sanction -- Revise error rate sanction and incentives system to hold States liable for full amount of incorrect issuance (eligibility and overissuance errors) over three percent -- $423 savings in 1984.

- Interaction Costs -- The effect of new proposals for Aid to Families with Dependent Children (AFDC), Social Security (OASDI), and Supplemental Security Income (SSI) will increase food stamp costs by $245 million in 1984.

Rationale:

- Delay Thrifty Food Plan COLA — Restrains program costs without reducing existing benefits of participants.

- Simplified Deductions

  - Eliminates a major source of error.

  - Eliminates the most complex and error-prone deduction. Approximately 13 percent of all errors can be reduced due to deduction change and the release of administrative time that can be applied to error reduction efforts.

  - Standard earnings deduction adequately compensates for work-related expenses of most households.

- o Household Definition -- Simplifies the current household definition with its numerous special circumstances and exemptions.

- o Categorical Eligibility/Simplified Benefits -- Simplifies application processing and benefit determination.

- o Community Work Experience -- Ensure employable recipients work at available paid jobs.

- o Error Rate Sanction -- Fiscal Year 1984 budget package makes every effort from the Federal level to simplify program administration and reduce the opportunity for error. Lower error rate will be easier to achieve and lower error rate tolerance is justified.

- o Interaction Costs -- Cash benefits from Aid to Families with Dependent Children (AFDC), Social Security (OASDI), and Supplemental Security Income (SSI) are counted as unearned income when computing food stamp benefits. Benefit reductions (increases) in these programs can lead to increased (reduced) food stamp costs.

Question: When will Congress receive the legislative package?

Answer: The legislative package is in the final clearance process and we expect to submit it by the end of April.

Question: If these changes are enacted, will they alter USDA's ability to provide adequate assistance to those millions of Americans who rely on Food Stamps?

Answer: No, sir. Even after enactment of our proposals, the Food Stamp Program is expected to serve an average of 21.54 million needy people every month during Fiscal Year 1984. All of the decline in the number of participants is due to improved economic conditions in the country. The rate of unemployment, for example, is expected to fall to 10.25 percent from its Fiscal Year 1983 level of 10.90 percent.

Furthermore, in Fiscal Year 1984, 80 percent of the net savings contained in our budget proposals is derived from reducing payments made in error or increasing State liabilities for errors. Only 15 percent stems from reductions in the benefits to which households are entitled. Across all households, and accounting for the effects of changes in other programs, the average food stamp benefit will be reduced by 7 cents a day. The benefits of households with income below poverty will be affected significantly less than households with income above the poverty line.

Question: If the changes are enacted, how many people will be excluded or dropped from the program?

Answer: We designed our proposals to minimize their effects on the eligibility of current participants. Consequently, we do not anticipate any significant reduction in participation under this package.

Question: Should these proposals not be enacted, what will be the cost of the program in Fiscal Year 1984?

Answer: If these proposals are not enacted, we estimate that the total cost of the program will be $11.7 billion in Fiscal Year 1984.

1983 SUPPLEMENTAL REQUEST

Question: Pending before Congress is a supplemental request for $1.2 billion for the Food Stamp Program. By what precise date must these funds be provided to avoid any reduction in benefits or other disruptions in the program?

Answer: If no additional funding is received, States would have to issue benefit reductions as of August 1. In order to calculate new benefit levels and inform recipients, States would have to be notified by the Department in May. Therefore, in order to avoid notifying the States to reduce benefits, the Department would need to have a supplemental by mid-May.

Question: How much of this request is for "bonus costs", and how much is for administrative costs and other expenses?

Answer: All of the request is for bonus costs.

Question: Based on the best available data, are you sure that this request is adequate to conduct the program for the balance of the fiscal year?

Answer: We believe the requested amount will be sufficient to fully cover the program throughout the fiscal year.

ADMINISTRATIVE COSTS

Question: In the Secretary's report to the Congress, dated March 17, 1983, he indicates that Food Stamp Program administrative costs for the month of January were $180 million, while the cumulative administrative costs for Fiscal Year 1983 to date, including January, were $308 million. Why was there such a substantial increase in January?

Answer: Total funds for each quarter are obligated to the States at the beginning of the quarter. However, States are not allowed to draw down any of the funds until they demonstrate a need for cash.

Funds obligated in January include funds for February and March. In addition, historically, the first quarter of the calendar year always has the heaviest food stamp activity. Therefore, administrative expenses during this period are consequently higher than during other periods.

Question: Is it accurate that $128 million covered administrative costs for the entire first quarter of Fiscal Year 1983?

Answer. Yes, that is correct; administrative costs totaled

$128 million for the first quarter of the fiscal year.

WORK REGISTRATION/JOB SEARCH

Question: In the past, there has been an arrangement between USDA and the Department of Labor for the conduct of work registration and job search activities connected with the Food Stamp Program. I understand you are proposing that these activities in Fiscal Year 1984 be financed by joint Federal-State funds on a 50-50 basis. How will that program (work registration/job search) actually be administered?

Answer: States will have flexibility in administering the work registration/job search requirements. They can choose to do the administrative work themselves, contract with another government agency, such as the State Employment Security Agency (SESA), or with private employment agencies.

Question: What will be the cost to the Federal Government?

Answer: The cost to the Federal Government for 50 percent of the cost of work registration and job search activities is estimated to be $34 million.

Question: Why is the change being made? Do you project better results under the new system than under the current arrangement?

Answer: Yes, we do expect better results by mandating that State agencies be responsible for administering work registration and job search activities. For the first time, this fiscal year, we contracted with interested States for work registration/job search services at a reimbursement rate to the States of 100 percent. However, not all States chose to sign contracts and a number of States chose to operate these services on a less-than-statewide basis. Under the proposed legislation, States would be required to implement statewide work registration and job search. We project this change will result in improved services by ensuring work registration and job search occurs throughout every State. The legislation will still give States broad latitude to take advantage of their own expertise in designing job search programs, but will strongly emphasize the importance of work requirements for non-exempt food stamp recipients.

Question: Please describe the work registration and job search demonstration project now being conducted.

Answer: The Work Registration/Job Search Project involves the testing of a variety of work registration and job search alternatives to examine their cost-effectiveness and efficiency in placing food stamp work registrants into jobs, as well as assessing their effectiveness in identifying participants who refuse to comply with these requirements or seek work on their own.

The demonstration project involves two rounds of testing. The first round was initiated jointly by USDA and DOL in September 1981 and ended in March 1983. Four demonstration models and eleven project sites were involved in the project during that period. Eight of the eleven sites had State Employment Security

Agencies as sponsors testing Job Clubs and/or a requirement that persons work register in person at the Employment Service as a condition of food stamp eligibility. The three remaining sites involved State welfare agency administration of the job-related services formerly provided food stamp work registrants by the Employment Service.

The second round of project testing was initiated in September 1982. At that time, considering the proposal that States assume the administrative responsibility for work registration activities, USDA decided to test additional work registration procedures administered solely by welfare agencies. As a result seven welfare agencies were awarded contracts to participate in the project. These seven new projects implemented operations between January 1, 1983 and March 1, 1983. The sites will operate through June 1984. The seven projects are testing: (1) Job Clubs; (2) a requirement that work eligible food stamp applicants as well as recipients job search for a specific period of time; and (3) a combined Job Club/Workfare requirement.

Each demonstration site involved in the project maintains an experimental group which must comply with the model work requirement operating at the site or be subject to sanction as well as a control group which is not required to register for work or job search.

FOOD STAMP PARTICIPATION

Question: How many food stamp recipients were there in Fiscal Year 1982?

Answer: In Fiscal Year 1982, participation in the Food Stamp Program averaged 21.7 million persons per month.

Question: How many are on the rolls currently?

Answer: As of February 1983, there were 22.1 million persons participating in the Food Stamp Program.

Question: What are estimates for participation during Fiscal Year 1984?

Answer: It is anticipated that participation will average 21.5 million persons per month in Fiscal Year 1984.

Question: What economic assumptions, particularly unemployment figures, underlie your Fiscal Year 1984 projections?

Answer: The Fiscal Year 1984 budget assumes that participation will average 21.5 million persons for the year, with an unemployment rate of 10.25 percent and that the cost of the Thrifty Food Plan will be $254 for a family of four.

Question: I understand that a recent study, conducted for FNS by Mathematica Policy Research Company, suggests that the Food Stamp Program has an extremely high client turnover rate. Why is this so? What other results did the study produce?

Answer: The Food Stamp Program is unique among the major income maintenance programs not only because of its nutritional goals but also because it does not restrict participation to selected categories of people (such as the elderly, disabled, or families with dependent children). As a result, the program can serve households with short-term, immediate needs, stemming from job loss for example, as well as those with chronically low income. We have believed that the number of participants served over the course of a year may be half again as large as the average monthly number. The preliminary study by Mathematica Policy Research suggests that this is approximately true. A more complete analysis of the magnitude and causes of turnover, using improved estimation procedures and a substantiallly larger sample, is still in progress.

WASTE, FRAUD AND ABUSE

Question: GAO estimates that in fiscal years 1980 and 1981, about $2 billion in food stamp benefits were overissued because of State food stamp agency errors and recipient errors and fraud. The net drain on program resources could have provided benefits to about 1.7 million needy people for 2 years. Without specific direction and emphasis from the Service, States established only $108 million in claims and collected only about $20 million or 1 cent of each overissued dollar, during the 2 fiscal years. What is FNS doing to narrow the differences between the amounts of overissued benefits, established claims, and collections?

Answer: In the past there were no strong incentives for States to narrow the differences between the amounts of overissued benefits, established claims, and collections. FNS has now provided States with a number of strong incentives to narrow the differences. Also, changes in laws and regulations make recovery easier. Some of these changes and incentives follow:

- States are reimbursed 75 percent of their expenses for investigative, prosecutive and in some cases claims collections efforts.
- States are allowed to use administrative consent agreements in lieu of the administrative hearing process when a recipient waives his right to a hearing to make a determination of fraud.
- State agencies are allowed to take other collection actions against a household, such as using a collection agency, when a household fails to respond to a demand for repayment.
- The responsibility for repayment of overissuance has been shifted from the disqualified individual to the household.
- States are allowed to retain 50 percent of recovered overissuances from households in fraud cases and 25 percent of other overissuances recovered from households.
- State agencies are able to reduce households' allotments to reduce fraud and non-fraud claims.
- FNS permits sentencing to work restitution to repay losses

to the Federal or State governments.

- Operation Awareness will share tested, efficient methods and techniques for reducing fraud, waste and abuse with States. They will have additional incentives to intensify their efforts in this area.

- A catalogue is being developed to provide information to States and cooperating organizations with results of anti-fraud, waste and abuse efforts. Many successful State initiatives for claims and collection are included in this catalogue.

- FNS is funding consultations between States so that States can learn from one another as to what works best.

- FNS is working on automating and analyzing reports concerning claims collection.

FNS has established improving claims collection as a major initiative in Fiscal Year 1983. We will be making a concerted effort to identify and transfer proven claims procedures from high performance areas to those that demonstrate little collection activity.

Question: Aside from legislative requirements, are there any specific initiatives that FNS is considering or has underway that would either enhance States' abilities to identify overissuances or enhance and facilitate collection?

Answer: Operation Awareness will share tested, efficient methods and techniques for reducing fraud, waste and abuse with States. Therefore, they will have additional resources to intensify their efforts in this area. A catalogue has been developed to provide information to States and cooperating organizations with results of anti-fraud, waste and abuse efforts. In addition, FNS is funding travel between States to improve program management so that States can learn from one another what works best.

The Fraud, Waste and Abuse Prevention Section of the Program Accountability Division has an initiative to identify States with proven sucessful claims establishment and collection procedures. They will disseminate the successful procedures to Regions to be shared with the States that demonstrate little claims establishment and collection activity. The Fraud, Waste and Abuse Prevention Section will then showcase one or two successful claim establishment and collection procedures in the publication"The Fraud Flyer."

Question: Despite what has been described as an "unprecedented nationwide drive against food stamp waste and fraud," I have seen estimates that indicate at least one billion dollars will be lost to waste and fraud this year alone. That's between 8 and 10 percent of your total program. Even with 1,170 indictments in 1982 — up from 177 in 1978, has the program become unmanageable?

Answer: We do not believe the program has become unmanageable. We believe that the increased number of indictments and our other initiatives are working together to substantially reduce the amount of fraud and waste in the program. We attribute the increase in indictments to two things. First, is the heightened awareness that this Administration intends to root out and eradicate food stamp fraud wherever possible. Second, is the increased involvement of the Office of Inspector General, the Justice Department Task Force and State and local law enforcement agencies in food stamp investigations.

Question: Are these reports and estimates accurate? Please provide details for the record.

Answer: The estimates you refer to are provided by our quality control (QC) system. The QC system monitors the rate of error in determining basic eligibility and benefit levels. The QC system does not measure fraud or program abuse per se, but it does serve as an indicator of dollar loss resulting from a variety of causes (incorrect reporting by households, incorrect application of policy, computational mistakes, etc). The national average QC overpayment rate for April - September 1981 was 9.41 percent. That translates into approximately one half million dollars of overpayments to households in that period.

Question; What is FNS doing to curb waste and fraud?

Answer: During 1982 and early 1983, the Department published several regulations intended to curb fraud, waste and abuse. Some of these are detailed below:

- o Proration of initial month's benefits was designed to ensure that a household's initial month's benefits reflect eligibility from the date of application through the end of the month in which the household applied.

- o Monthly Reporting and Retrospective Budgeting. This rule allows State agencies to require most food stamp recipients to report periodically their financial circumstances to the State agency. The rule also allows State agencies to compute food stamp benefits for most recipients by using past information, rather than anticipated future circumstances. Final rules are planned for 1983 to mandate implementation of this system by October 1, 1983.

- o 25 percent Retention of Nonfraud Claims. The notice allowed States to implement this part of the proposed Disqualification Penalties for Fraud, Misrepresentation, and Improved Recovery of Overpayments regulation immediately retroactive to January 1, 1982.

- o Food Stamp Administrative Matching Grants provides for 75 percent funding for States which choose to develop comprehensive computer systems to improve their administration of the program. Funding is retroactive to October 1, 1980.

- o Mail Issuance Loss Tolerance Level. This rule makes States strictly liable for quarterly mail issuance losses in excess of 0.75 percent in large project areas (areas issuing more than $300,000 per quarter) and in excess of

$2,250 in small project areas, during the last three quarters of Fiscal Year 1983. Beginning October 1, 1983, these tolerance levels will be reduced to 0.5 percent and $1,500 respectively.

- Wage Match. This rule mandates that States begin matching wage information with either Social Security Administration or State unemployment insurance agencies beginning January 1, 1983.
- The Issuance Loss Liability regulations implement a provision of the Food Stamp and Commodity Distribution Amendments of 1981 making States strictly liable for losses due to the failure of an issuance agent to document the fact that the issuer complied with the photo ID requirements beginning January 1, 1983. This rule also requires that the State agency include a provision passing this liability on to the agent in all agreements and contracts.
- Retailer Provisions of 1982 Act tighten rules for authorizing house-to-house trade routes by limiting authorization in areas where such trade routes damage program integrity. The rule also specifies a scale of penalties for authorized firms depending on the number of violations and/or the type of violation.
- Fraud and Claims Collection. This expands the basis of disqualification for program abuse and increases penalties for disqualification; authorizes allotment reductions for overissuances which result from inadvertent household error; allows State agencies to take other collection actions against households; and requires States to report to FNS on disqualified individuals. FNS will maintain a national tracking system for disqualified individuals.
- Error Rate Reduction System regulations require that States achieve successively lower error rates. States which fail to reach their target may see a reduction in administrative funding.
- The Duplicate Participation regulation requires that States establish a system and take periodic action to verify that no individual is receiving benefits in more than one jurisdiction in a State.
- Alternative Issuance Systems authorize the Secretary to require State agencies in all or part of their jurisdictions to change their issuance systems in areas with significant issuance problems.

OIG ACTIVITIES

Question: How do your efforts dovetail with those of the Office of the Inspector General?

Answer: The FNS Compliance Branch does investigations in the retailer area of program operations. The authority for FNS to conduct retailer investigations is established in an agreement between FNS and OIG called a Statement of Determinations.

Under the Statement of Determinations the FNS investigative activities are geared to provide evidence primarily to support administrative sanctions, (i.e., disqualification) against firms found violating. The Office of the Inspector General conducts felony level criminal investigations. When a Compliance Branch investigation reveals that food coupons are being discounted for cash, or other indications that felony level violations are occurring, the case is referred to OIG for escalation. In Fiscal Year 1982, FNS referred 287 cases involving the discounting of food coupons for cash to OIG for possible escalation. During the same period the Compliance Branch completed 5,455 food stamp investigations.

Question: Are there any problem areas that neither of you cover sufficiently?

Answer: The administrative sanctions provided by the food stamp regulations are quite effective when applied to authorized firms found violating. However, FNS has no administrative sanction authority whereby unauthorized firms or individuals can be penalized for illegal acquisition of food coupons.

The food stamp regulations provide for criminal prosecution of individuals involved in the illegal acquisition of food coupons and many States have statutes that specifically forbid food stamp abuses. However, in practice, particularly in the larger urban Federal jurisdictions, only cases involving very large dollar values of food coupons tend to be viewed as having prosecutive merit. FNS on numerous occasions has proven through investigations that unauthorized firms or individuals are illegally accepting food coupons, but in the absence of agreements to prosecute criminally, no sanction actions can be taken other than to send the offending party a letter of warning that their activities are illegal. Such action is not, in our view, a strong deterrent.

Question: Is there any unnecessay duplication of efforts?

Answer: We do not believe there is unnecessary duplication of efforts between OIG and FNS. The FNS Compliance Branch maintains very close coordination with the Office of the Inspector General. Compliance Branch Area Offices have good working relationships with Regional Inspector General Offices, which are advised in advance of all FNS investigations.

Compliance Branch investigators often work with OIG Special Agents in the escalation of food stamp investigations beyond the misdemeanor level. However, most Compliance Branch investigations are completed below the felony level using investigative techniques designed to support the maximum administrative sanctions available to FNS. Disqualification of authorized firms has always been a very effective sanction, especially in terms of economic impact and timeliness.

Question: As the Food Stamp Program has grown into a multibillion dollar enterprise, have you found that offenders of the program have become more sophisticated and professional in their activities?

Answer: It is inevitable that a program the size of the Food Stamp Program will attract all levels of criminal activity. As the number of successful prosecutions and resultant publicity increases, we believe that offenders are becoming more careful, and therefore more sophisticated, in their violative efforts.

Question: What is being done to address this new category of violator?

Answer; The Office of Inspector General is continuously developing and refining new techniques to detect and deter program violators. Specific information in this area can be more appropriately provided by the Inspector General.

BLACK MARKET

Question: Some of the reports I have heard and read are horror stories. I understand that bartering for food stamps in the black market has been quite lucrative for some individuals — food stamps being traded for bazookas and munitions; for drugs, jewels, motorcycles, all sorts of home furnishings and equipment, equity in a house, exotic birds, and even prostitution. Are these type activities becoming more prevalent?

Answer: We do not believe that these types of activities are becoming more prevalent. However, more "sting-type" operations are being conducted by OIG, the Justice Department task force, and State and local law enforcement agencies. Consequently, due to the effectiveness of these sting operations and the resultant publicity it may appear that bartering in the black market is more widespread.

Question: Has food stamp trafficking become part of the major crime scene and the underworld schemes of America?

Answer: We have no indication that food stamp trafficking has become a significant part of the major crime underworld. Most instances of trafficking have involved individuals or small groups with no links to any organized crime schemes.

COUNTERFEITING

Question: I understand you have some luck catching counterfeiters -- six counterfeiting rings with 2 million dollars in counterfeited stamps. Is this type of activity on the rise?

Answer: The U.S. Secret Service is the agency responsible for combating the counterfeiting of all U.S. obligations. FNS' responsibility is to fully cooperate with the Secret Service in handling any incidents of counterfeiting. For example, FNS is frequently asked to provide information on the suspected food stamps in the possession of the Secret Service. The information is an investigative aid.

Secret Service reports indicate that in Fiscal Year 1981, 9,861 counterfeit food stamps were found in circulation for a total value of $91,000. During the same period, 15,396 counterfeit food stamps were seized prior to circulation, having a value of about $153,000. In Fiscal Year 1982, 3,303 counterfeit food stamps were found in circulation for a total value of about $26,000. During the same period 148,126 counterfeit food stamps were seized prior to circulation, having a value of about $1,474,000. Therefore, although the above data would indicate that the number of counterfeit food stamps produced increased, the number that actually got into circulation, where the loss occurs, decreased by more than 70 percent.

Question: Can't the USDA stamps be made in such a way to prevent reasonable duplication?

Answer: Food stamps are printed by the intaglio method. This method is recognized world wide as the most secure printing method available. It is the same method that is used to print United States Currency as well as stocks, bonds, travelers checks, etc. Also, two design changes were recently incorporated into the food stamps. A microline line has been engraved into all three food stamp denominations ($1, $5 and $10). A microline is not detectable with the naked eye but requires the use of a magnifying instrument to see. Additionally $10 food stamps bear a latent (hidden) image. These printing methods and techniques can only be accomplished by security printers, such as the Bureau of Engraving and Printing and a handful of private firms. Any attempts to duplicate the food stamps by using a color copier are obvious. To produce a quality counterfeit food stamp requires access to and the knowledge to operate sophisticated equipment.

ADMINISTRATIVE PROBLEMS

Question: Are you finding many instances of food stamp caseworkers or of public officials who are the sources of waste and fraud?

Answer: There have been instances of caseworkers who have set up phony food stamp cases, issuance agents involved in illegal redemptions or thefts, and public officials involved in trafficking. OIG and State and local law enforcement officials have cooperated in the development of techniques to detect this type of violator. However, these incidents are isolated given the size of the Food Stamp Program and the number of public employees involved in it.

Question: In short, what, if anything, would it take to curb the fraud, waste and abuse that seems to be rampant in the Program?

Answer: A joint and concentrated effort at the State, local and Federal levels to curb fraud, waste and abuse is required. This is what we are accomplishing with Operation Awareness. Commitment from the highest levels of involved agencies down to the eligibility worker level is being sought. Already, all Governors and State Welfare Commissioners have been solicited to support this project and the feedback has been supportive and positive. A new publication called "State to State" has been issued to all States and in turn to local welfare offices. This publication highlights successful techniques of detecting and preventing fraud, waste and abuse. A matrix is being finalized encompassing positive and constructive program activity Nationwide and will be available soon. The matrix currently contains hundreds of anti-fraud activities and will be continuously updated and available as a reference source. Fraud conferences are being held throughout the Nation in April and May. These conferences are sponsored by Food and Nutrition Service Regional Offices in conjunction with cooperating organizations such as Welfare Fraud Organizations and Health and Human Services. In May, Secretary Block has invited all State Welfare Commissioners, Regional Administrators and Food Stamp Program Directors as well as heads of key cooperating organizations to attend and participate in a conference to focus on techniques that can be used to enhance the integrity of the program.

Within FNS, a fraud, waste and abuse prevention unit has been established to act as a clearing house for initiatives carried out by private, local, State and Federal agencies. Presently, particular interest is being directed toward techniques and initiatives which can be implemented without any regulatory change.

Operation Awareness is making progress in forging this partnership. We are already seeing results and expect more in the coming months.

Question: What additional resources, legislation, and controls would you need, and how much time?

Answer: Anti-fraud activities have shown a dramatic increase in the last two years, and have gone up at a more rapid rate than first anticipated as we have encouraged States to take the initiative in reducing waste. We now project that the budgeted amount, of $16.6 million may be about $5 million short of the States request. At the time the budget was being prepared it was thought that $16.6 million would be sufficient to fund anti-fraud activities. However, should the need for additional funds materialize, we believe that we will be able to shift the amount required from other categories to anti-fraud.

Congressional approval of the Administration's 1984 legislative proposals would provide us with the legislative authority we need to curb fraud, waste, and abuse. The proposed household definition, simplified deduction structure, categorical eligibility and simplified benefit determination for AFDC participants required participation of certain able-bodied persons in Community Work Experience Programs, and enhanced State liability for errors will better assure that only deserving households will receive the levels of food assistance they truly need. Fraud, waste, and abuse will never be fully eradicated but we have made enormous strides in the past two years.

Question: Are there problems with the lack of State control and enforcement of the program and its recipients? If so, what are they?

Answer: Yes, there are some problems in this area. Lack of State control and enforcement has contributed to some States experiencing problems in the areas of mail issuance losses, duplicate participation, establishment and collection of recipient claims, and high quality control error rates.

FNS has initiated actions which will require tighter State control over program operations in order to reduce losses. In the area of mail losses, State agencies now will be held strictly liable for any losses which exceed an established tolerance level. Effective October 1, 1983, all State agencies now will be required to establish systems which will ensure that no individual receives food stamps in more than one jurisdication within the State. This provision will ensure that all State agencies systematically check for duplicate participation. The requirements for establishing and collecting claims against recipients have been tightened to ensure that program losses are recovered. In addition, State agencies will be allowed to retain a percentage of the value of claims collected. These actions are aimed at deterring Food Stamp Program abuse and improving recovery of overissuances. FNS will also provide technical assistance to those State agencies which continue to experience problems in the area of claims collections. State agencies are also required to implement wage match in order to identify those households which under report earned income. This requirement will ensure that State agencies tighten control over program operations in order to reduce certification errors and program losses. In addition, States with high quality control error rates must take action to reduce the error rate or be subject to fiscal sanction.

All of the above actions have been initiated by FNS to ensure that States tighten control over program operations. In addition, FNS has implemented Operation Awareness in an effort to reduce fraud, waste, and abuse in the Food Stamp Program.

OPERATION AWARENESS

Question: I notice that Secretary Block recently announced a project to reduce losses in the Food Stamp Program called "Operation Awareness". What does this endeavor entail?

Answer: Operation Awareness is the Food and Nutrition Service plan to enhance communication among States in order to highlight and continue efforts to improve the management of the Food Stamp Program. It is a joint Federal-State effort to improve program integrity through initiative to detect and reduce fraud, waste and abuse. Operation Awareness entails three major objectives. The first is to continue and improve agency emphasis on program accountability. The second is to strengthen public confidence in the Food Stamp Program and the final objective is to protect benefits of the needy and the elderly. The major components of Operation Awareness are to initiate improved anti-fraud, waste and abuse activities and program management at the National and Regional levels. States and/or cooperating organizations have been asked to support the Project and to develop new initiatives to strengthen the Program. The response from this request has been very positive. Information to States and from States about current Federal, State and local efforts to improve program management is flowing at an increasing rate. Reports on Operation Awareness's successes are being shared through press releases, speeches, conferences and a publication called "State to State" which focuses on successful techniques of improved management.

Question: How do you expect it to curb waste, fraud and abuse?

Answer: Operation Awareness is assuring that information on successful fraud and waste reduction techniques gets out to State and local entities. This information is being transmitted in several ways. In March the first issue of "State to State" was issued to all States and in turn to welfare offices. The publication highlights successful techniques being used across the country. A catalogue containing over 100 anti-fraud activities is being developed which will be sent thoughout the Nation. In addition, a series of fraud conferences are being held across the country. These culminate in a Washington, DC conference for State Welfare Commissioners in early May. We expect these activities to result not only in a tremendously expanded amount of anti-fraud and waste information but also in increased emphasis and attention to these issues. These improved techniques and the increased emphasis will result in a reduction of fraud, waste and abuse across the country.

Question: In the last few years, there have been several suggestions that plastic cards with computerized strips be utilized to bring about more control and prevent abuse in the program. Is anything being done to implement this type of subsystem?

Answer: FNS has received many suggestions of this type over the past several years, and remains open to such initiatives to tighten program controls -- especially in the areas of participant identification and benefit issuance.

We have recently launched a major project to test alternatives to our current coupon issuance and redemption processes. We are considering several proposals, some of which involve the use of magnetic strip cards or other computerized devices, and the elimination of the food stamp as we now know it. Our intent is to improve the issuance segment of the program's operation and reduce the opportunities for fraud and abuse.

The above activities are being tested in demonstration modes not only to determine their technical feasibility, but to establish comparative cost and benefit levels.

Question: Would additional funds be required to implement these activities? If so, how much?

Answer: At this time, we are unsure of the cost of implementing alternative systems. One of the purposes of the demonstration projects is to determine comparative cost and benefit levels. Through them, we will know the extent of additional funds required, if any.

COMPUTERIZED PROGRAM ADIMINISTRATION

Question: The Food Stamp Act Amendments of 1980 increased the percentage of Federal financial participation in States' cost of upgrading or establishing computerized food stamp operations. The need for increased computer capability is being repeatedly demonstrated as States are required to compare client-reported wages with government-maintained wage data and to develop systems for preventing individuals from receiving benefits as members of more than one household. Further, potentially higher administrative costs from initiatives to control errors is emerging as a problem warranting a quickening of the already existing trend toward more automated functions. What is the Service doing or planning to do to encourage and assist States to obtain comprehensive computer capabilities to adiminister the Food Stamp Program?

Answer: The Service is continuing to actively encourage the increased use of computer technology to improve the States' operations of the Food Stamp Program and to lessen the rate of loss due to fraud and abuse. The Food and Nutrition Service is encouraging the use of computer matching to prevent duplication or overissuance. FNS is supporting the computerization of the issuance process in several project areas. FNS has also made available intelligent computer terminals for States to use (at no State cost) in conjunction with the integrated quality control system. Thus far, 50 of 53 State agencies have requested and received terminals. The lastest budget figures for Fiscal Year 1982 show FNS has obligated (at the 75 percent funding level) $5,609,500 for computer developmental costs and $15,575,600 for computer operational costs.

Question: What is the source of Federal funding for this purpose? How much is available? How much has been used?

Answer: Funds are provided for ADP developmental costs in the annual appropriation of funds for the Food Stamp Program under State Administrative Expenses. The Fiscal Year 1983 budget provides approximately $6.8 million for this purpose. Through the first quarter of the fiscal year, ADP developmental costs total $2.2 million. States are reimbursed for 75 percent of their ADP developmental costs.

States also receive 50 percent of the cost of their ongoing ADP operational costs. The Fiscal Year 1983 budget includes an estimate of $21.4 million for this purpose and through the first quarter of the fiscal year ADP operational costs total $4.1 million.

States are also reimbursed for 75 percent of all their costs including ADP costs of conducting anti-fraud activities and prosecutions. The budget has $16.6 million included for this purpose.

Question: Are there any valid estimates of the economies available from automation of certain elements and functions of the food stamp and other similar programs such as the Aid to Families with Dependent Children Program?

Answer: Thus far, we do not have any specific information about economies available from automation. The major thrust of our computerization effort has been to provide State agencies a fast, efficient and accurate way to review enormous amounts of data that was done manually. FNS anticipates that computer matching in activities such as reconciliation, wage-matching, error-prone profiling and identification of duplication will reduce benefit-dollar losses in the program, since it is an invaluable tool in the detection and prevention of mistakes or fraud. Computers make it possible to quickly access wage, benefit, and other information contained in SSA files and in files maintained by State unemployment compensation agencies to substantiate information used in determining eligibility and benefit levels. They can quickly review numerous food stamp records to determine if the same individual appears more than once. Once apparently contradictory information is exposed, verification or investigative efforts can then determine whether possible error or intentional misrepresentation exists. Computers can detect individuals who are receiving multiple program benefits and deter others from trying to defraud the system. Analysis of information obtained through the computer may show trends of errors where corrective action can be taken to correct program vulnerabilities or improve program efficiency. FNS further anticipates that computer systems established under this effort will have the technical potential for securing a complete and detailed reconciliation and audit trail for benefit transactions handled under the program.

QUALITY CONTROL

Question: The Food Stamp Program uses a State-operated quality control system to improve program administration. Its objective is to identify the kinds and causes of errors that occur and measure the resulting dollar losses. Quality control results are used to (1) determine State eligibility for enhanced funding or liabilities for payment errors and (2) plan corrective action to reduce the possibility of similar errors in the future.

The Omnibus Budget Reconciliation Act of 1982 (P.L. 97-253) provides an additional 10 percent bonus to the 50 percent Federal funding of administrative costs for States with error rates below 5 percent. However, States that exceed payment error rates of 9 percent in Fiscal Year 1983, 7 percent in Fiscal Year 1984, or 5 pecent in Fiscal Year 1985 or any succeeding Fiscal Year may be subject to having their administrative funding reduced by the value of losses over the allowed error rate percentage.

Since the States are being asked to perform quality control reviews that may result in financial liability, what are the Service's procedures and plans to assure that States' quality control results are valid?

Answer: Beginning with the October 1980 - March 1981 reporting period, FNS has validated each State's reported payment error rate for each six month quality control (QC) period. This involves a Federal re-review of a sample of the cases the State QC staff has completed. The Federal reviewer conducts a case record and field investigation of each selected case to the extent necessary to determine the accuracy of the State's original finding. Each State's reported error rate is adjusted for differences between Federal and State findings using a linear regression equation.

These validated error rates are used for determining which States are liable for sanctions or eligible for enhanced funding.

PUERTO RICO BLOCK GRANT

Question: The special block grant for nutrition assistance to Puerto Rico replaced the Food Stamp Program in Puerto Rico. It commenced in July 1982, and gives the Commonwealth flexibility in tailoring the program to recipient needs. What is your overall assessment of how the block grant concept is working in Puerto Rico.

Answer: The Department completed an evaluation of the Puerto Rico block grant and submitted a final report to the House and Senate Agriculture Committees on March 9, 1983. Based on this evaluation, the Department's overall assessment of how the block grant concept in working is favorable.

With the flexibility allowed under the block grant, Puerto Rico chose to design a cash food assistance program. They designed new program features including reduced and prorated monthly benefit levels to keep program expenditures within their fixed $825 million annual budget. Targeting of benefits to the neediest recipients has been maintained and Puerto Rico has enhanced program operations to limit opportunities for waste, fraud, and abuse. Thus it is clear that the Commonwealth has been successful in implementing and managing the new cash program. As of yet, however, there are no conclusive data on economic effects or effects on receipients' food expenditures and nutritional status.

No household food expenditure data were available to determine whether recipients under the new cash program spend as much of their assistance on food as they did with the former Food Stamp Program. Preliminary rough indicators, however, are generally positive. Cancelled check data indicate that the large majority of recipients cash their checks in food stores. According to recipients, the large majority report no changes in their shopping patterns or the amount of food they purchase. However, retail food sales are down. This is consistent with recent declining economic trends and with the lower program budget available under the block grant, but is also consistent with possible changes in recipient food purchasing patterns. Thus at this time the impact of the new cash program on food expenditures is uncertain.

Question: The amount of $825 million for the block grant is in place (as a "cap") through 1985. Is that realistically enough funding to support the program needs in Puerto Rico?

Answer: Based on the latest available data we have on program participation, we believe that the amount of $825 million for the block grant through 1985 will be sufficient to fund program needs in Puerto Rico.

Question: USDA's Office of Inspector General (OIG) recently reported that Puerto Rico's cash-in-lieu of food stamp coupons program is working efficiently. Do you agree with that assessment? What is the status and future of the cash-out concept?

Answer: Yes, we agree that Puerto Rico has successfully implemented an efficient cash assistance program under the block grant. The USDA study of the cash food assistance program in Puerto Rico required by the Omnibus Budget Reconciliation Act of 1982 (P.L. 97-98) reflects this. It appears to show significant administrative cost savings largely due to the elimination of food coupons. Not only has Puerto Rico enhanced program operations to limit opportunities for waste, fraud and abuse, Nutrition Assistance Program (NAP) checks appear to be less vulnerable to fraud than coupons were. An analysis of cancelled food stamp checks in Puerto Rico indicated that a large majority of recipients cash their checks in food stores, suggesting that widespread abuse of checks may be unfounded. Recipients who stated a preference preferred checks over coupons four to one. The chief reason cited for this was greater convenience, since checks come in the mail while they had to stand in line to get coupons.

As for the status and future of the cash-out concept, the administration is proposing to delete the provision in P.L. 97-253 (The Food Stamp Amendments of 1982) which requires Puerto Rico to replace its cash food assistance program with a noncash program by October 1, 1983. The 1982 provision is directly contrary to the goals of maximum State agency flexibility and would create several programmatic problems associated with requiring Puerto Rico to convert to a noncash issuance system. Since Puerto Rico chose a cash assistance program as a way to lower administrative costs and reduce overall fraud and abuse by eliminating abuses specifically related to the use of food stamps, and appears to be achieving this, we see no prudent reason to change its cash-out status.

Question: (Declining participation) I understand that participation in the Puerto Rico program has declined every month since last July when the new $825 million block grant program replaced Puerto Rico's $1.1 billion food stamp allotment. How do you explain this decline? Is there not enough money in the program to support the number of applicants?

Answer: Participation in Puerto Rico steadily declined between July and December 1982. However, participation has fluctuated somewhat in calendar year 1983. During January through March 1983 respectively, 421,166; 423,586 and 424,442 households participated.

The Nutrition Assistance Program (NAP) differs from the Food Stamp Program which it replaced in that its budget is reduced and capped. To stay within the reduced budget, Puerto Rico tightened eligibility requirements and reduced authorized benefits in converting to the NAP. In addition, each month the actual benefits are prorated on the basis of funds available and total benefits authorized. Declining participation is due largely to more stringent eligibility requirements and previously eligible food stamp households now being re-certified under the new NAP eligibility rules.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

CHILD NUTRITION SAE

Question: The current law projections in the budget notes project a $7.4 million decrease in the funds for State administrative expenses associated with the child nutrition program. Please explain this projection for the committee.

Answer: The State administrative expenses for the Child Nutrition Programs are based on 1.5 percent of the obligations of the second preceding fiscal year for the school lunch, school breakfast, child care food and special milk programs. The 1982 obligations for these programs were lower than those for 1981; hence SAE funds for 1984 are lower than those in 1983.

OTHER PROGRAM COSTS

Question: The current law projections also reflect a $61 million reduction in "other program costs" associated with the Food Stamp Program. Please explain this reduction.

Answer: The reduction in other program costs is due primarily to changes in the way in which funding for job search activities is handled. In Fiscal Year 1982, the Department only spent $34 million for job search. In June 1982, the Department decided to contract directly with State agencies, rather than through the Departmentof Labor, but was unable to use all of the Fiscal Year 1982 funds by the end of the year. In Fiscal Year 1983, the Department received an appropriation of $65 million. In Fiscal Year 1983, job search activities are being funded through contracts with State agencies and will be financed entirely by the Federal government. For Fiscal Year 1984, the Department proposed to include job search as a regular State administrative expense, eligible for 50 percent funding from the Federal government. Therefore, no funding has been included under other program costs.

CHILD NUTRITION PROGRAMS

Question: The notes indicate a decline in the participation in the school lunch program in Fiscal Year 1984. How much of this decline can be directly attributed to legislative changes in the school lunch program?

Answer: The decline in participation is almost entirely the result of declining school enrollments. The forecast from the Department of Education indicates that enrollment will continue to decline until sometime in Fiscal Year 1985 when it will begin to increase again.

Question: What rate of inflation was assumed in deriving the School Lunch Program adjustment for Fiscal Year 1984 and has there been any change in recent months due to a lower rate of inflation?

Answer: When the budget was calculated in January, we assumed a 5.6 percent rate of inflation for adjustments in subsidies made for Fiscal Year 1984.

Question: The notes indicate that the anticipated decrease in funding for the Child Care Feeding Program under current law will "primarily" be the result of HHS assuming the costs associated with meal delivery under the Head Start program. Are there other reasons the cost of this program will decline? If so, what are they?

Answer: There are no other reasons for the decline in the cost of the Child Care Food Program under current law.

Question: Please provide a description for the record of recent changes in the school lunch application process, the process itself and the impact this has had on reducing fraud and abuse in this program.

Answer: The Omnibus Budget Reconciliation Act of 1981, Public Law 97-35, enacted on August 13, 1981, made several changes in the school lunch application process, including:

- the income at the time the application is submitted is considered income over the past 12 months. Families must, of course, notify schools of changes in income;
- the Secretary, States and local school food authorities may seek verification of the data contained in the application;
- local school authorities must seek verification each school year of three percent or 3,000, whichever is fewer, of approved applications on file as of October 31; and
- social security numbers of each adult household member are required on the application for the receipt of free or reduced-price meals.

The social security and verification provisions were included in response to a concern on the abuse of free and reduced price meal benefits. The impact of these provisions is not yet known since the verification rule does not go into effect until July 1, 1983.

Question: The statement submitted by Mr. Leard indicates that the budget will subsidize 95 million meals a day. Please provide an accounting for the committee of an average day, i.e., how many are subsidized each day by each separate program, the average subsidy involved in each of these meals, and the average income level of each program's participants.

Answer: My statement refers to the more than 95 million meals daily that are currently subsidized in whole or in part by USDA. The meals can be broken down this way:

	Millions of Meals/Day
Food Stamp Program	66.0
National School Lunch Program	23.0
School Breakfast Program	3.4
Child Care Food Program	2.0
Needy Families	3.0
	97.4

The following information is provided in response to your request for average subsidies and income levels of program participants for Fiscal Year 1983.

Program	Meals/Day (in millions)	Subsidy/Day (in dollars)	Average Gross Income (in dollars)
Food Stamp Program	66.0	$1.29	$4,188 1/
Needy Families	3.0	1.24	5,208
		Subsidy/Meal (in cents)	
Child Nutrition Programs:			
National School Lunch Program (NSLP)	23.0	Free: 128.20¢ 2/	Below 12,090
		Reduced Price: 88.20 2/	Between 12,090 and 17,210
		Full Price: 23.25 2/	Over 17,210
School Breakfast Program (SBP)	3.4	Free: 67.49	Below 12,090
		Reduced Price: 33.03	Between 12,090 and 17,210
		Full Price 8.83	Over 17,210
Child Care Food Program	2.0		
Centers		Lunches and breakfasts are the same as the NSLP and SBP	
		Snacks	
		Free: 31.50	
		Reduced Price: 15.75	
		Full Price: 3.00	
Homes		Lunches/Suppers 110.17	No income requirements-65 percent about 17,210
		Breakfasts 50.25	
		Snacks 29.50	
Summer Food Service Program	1.4 (Peak)	Lunches 140.50	Sites serve geographic areas when 50 percent of households are below 17,210 (family of four)
		Breakfasts 78.25	
		Supplements 37.00	

1/ Gross income derived from August 1981 Quality Control Characteristics.
2/ Includes value of commodities or cash-in-lieu thereof.

PROGRAM PARTICIPATION

Question: Your statement indicates two points that are of particular interest--first, that the state of the economy plays a large part in determining funding requirements and participation in the feeding programs and, second, that the Food Stamp Program is serving record numbers of individuals. What has been the increase in participation in the Food Stamp Program since January 1980 and how much of this increase can directly be linked to the state of the economy and increased unemployment since that time?

Answer: Between January 1980 and January 1983, participation in the Food Stamp Program increased by 22 percent from 18.6 million to 21.9 million persons. Unemployment increased from 6.2 percent to 10.4 percent during this same time period. Historically, a percentage point increase in the unemployment rate has added about one million people to the Food Stamp Program. Other changes in the programs (such as legislative modifications) or in the economic environment can affect this relationship; however, there is also some reason to believe that the character of the current recession may be different from previous recessions and may alter this historic relationship.

Question: Participation in Fiscal Year 1982 of nonresidential child care institutions in the Special Milk Program was significantly higher in California than in any other State. What is the explanation for this?

Answer: Neither our Western Regional Office nor the State of California can give us any insight as to the reason for this high number of nonresidential child care institutions participating in the Special Milk Program. The California State agency suggests that the fact that the State has the highest population in the Nation (over 6 million more people than the State of New York, which has the next highest population) may be a contributing factor.

Question: What will be the specific impact on participation levels in the WIC Program if the Congress maintains funding at $1.060 billion?

Answer: We are estimating for Fiscal Year 1983 an average participation level of 2.2 million participants per month. However, participation in the WIC Program for Fiscal Year 1983 could increase by an average of 50,000 to 100,000 participants per month depending on how the States use the Jobs Bill funds (P.L. 98-8). Year-end participation would reach an estimated 2.9 million participants with an overall average of 2.5 million participants for the year.

If Congress maintains the funding level at $1.060 billion for Fiscal Year 1984, the average participation level would be 2.1 million participants per month. This is a reduction of 400 thousand participants per month.

Question: What level of funding will be necessary to maintain participation at an even level through Fiscal Year 1984 assuming the $100 million program increase provided in the Jobs Bill is fully utilized in Fiscal Year 1983 as Congress intended?

Answer: Assuming that the $100 million appropriated for the WIC Program in the Jobs Bill is fully utilized, we are estimating a year-end participation of 2.9 million participants. If this level is annualized at the Fiscal Year 1984 monthly per person cost of $41.11, the total 1984 cost of the program would be $1,430.6 million.

ELDERLY FEEDING PROJECTS

Question: What is the current status of the demonstration projects aimed at testing the distribution of commodities to low-income elderly persons?

Answer: There are now three elderly feeding pilot projects operating in Des Moines, Detroit and New Orleans. Of the $1,380,000 appropriated for these projects, $705,000 has been distributed for administration and purchase of donated commodities. The Department intends to offer the remaining $675,000 to the three projects for their use through Fiscal Year 1984.

The projects are serving between 1,440 and 2,000 low-income elderly persons per month. Many of these elderly persons are homebound and are able to participate in the program because food packages are delivered directly to their homes by volunteers. The food packages contain the same commodities as are contained in the CSFP food packages, including bonus commodities such as cheese, butter and honey.

WIC PROGRAM

Question: Are any changes in regulations being considered which would impact the WIC food package by making foods currently ineligible for reimbursement eligible?

Answer: The Department does not intend to take any immediate action to alter the content of the WIC food packages as set forth in program regulations implemented on January 1, 1983. However, as part of our ongoing responsibilities, the Department continually reviews the appropriateness of WIC Program regulations. This review is based on nutritional evidence, economic factors, the needs of program administrators, and the wishes of the Congress. If and when the Department concludes that changes in the WIC food packages are appropriate, we will seek the broadest possible input from all relevant constituencies, including the scientific community and the Congress.

Question: The Inspector general has suggested that program dollars could be saved through bulk purchasing and distribution of infant formula under the WIC program. What is the position of the Food and Nutrition Service on this proposal?

Answer: FNS has several concerns regarding the proposal. First, we believe that the potential savings projected by OIG is overstated. OIG based its savings estimate on unrepresentative costs for infant formula and home delivery. In addition, OIG assumed no additional administrative costs would be incurred at State or local levels, while we believe such costs would be likely. Finally, OIG has recommended requiring bulk purchase/home delivery of infant formula on a nationwide basis. We disagree with this approach. Instead, we believe that this method may be effective and economical in some States or localities, but is likely to be prohibitively expensive or infeasible in other areas.

FNS is continuing discussions of the proposal with OIG. We are willing to assist any State in implementing this alternative delivery method if the State chooses to pursue it.

Question: Twenty pecent of the funds provided for WIC are allocated to the States for administrative costs. I am told, however, that administrative costs as a percentage of total program costs vary from State to State significantly. Please provide a table showing the amount each State spent on administrative costs in Fiscal Year 1983 as a percentage of the program's total cost in each State along with an explanation as to why such large variances occur.

Answer: By law the Department is required to allocate, for administrative grants, 20 percent of the total amount of funds allocated for the program. The law also requires the Department take into account the varying needs of State agencies. Thus administrative funding cannot be the same ratio to total funds for each State agency.

In Fiscal Year 1983 base administrative grant amounts were determined for each State agency using its individual administrative cost per person. To arrive at the base administrative grant, this cost was multiplied against the number of participants to be served. Then additional negotiated funds were allocated through regional discussions with State agencies for State agency needs not met by base funding. However, restrictions were placed on the total amount of administrative funding State agencies could receive relative to their food funding. State agencies with relatively high administrative to total funds ratios as a result of this funding process are those with special needs due to higher transportation or salary costs or low participant to staff ratios. These generally are Indian State agencies and those outside the continental United States.

Attached are the Fiscal Year 1983 administrative to total funds ratios for each State agency. These ratios include funds provided to State agencies under the recent Emergency Jobs Act.

STATE AGENCIES	TOTAL FY 1983 FUOD GRANT	TOTAL FY 1983 ADMIN GRANT	TOTAL FY 1983 GRANT	ADMIN/ TOTAL RATIO
NERO				
Connetic	15508714	3936535	19445249	20.24
Maine	4917948	1443013	6360961	22.69
Massachu	15530330	3863222	19393552	19.92
New Hamps	4003839	1224472	5228311	23.42
New York	81116766	20044847	101161613	19.81
Rhode Is	4250804	1454883	5705687	25.50
Vermont	5134429	1766298	6900727	25.60
Ind Towns	45972	22390	68362	32.75
Penobscot	24708	12034	36742	32.75
Pl Point	52540	25589	78129	32.75
Seneca	157691	76802	234493	32.75
Subtotal	130743741	33870065	164613826	20.58
MARO				
Delaware	1733241	561062	2294303	24.45
Maryland	14438286	3621871	18060157	20.05
New Jersy	18319204	4947440	23266644	21.26
Pennsylv	33272680	8226463	41499143	19.82
Puerto Ri	27322697	4246908	31569605	13.45
Virginia	20301658	4714558	25016216	18.85
Virgin Is	1930236	592926	2523162	23.50
West Virg	9084378	2460261	11544639	21.31
District	3015712	960468	3976180	24.16
Subtotal	129418092	30331957	159750049	18.99
SERO				
Alabama	18966582	5028328	23994910	20.96
Florida	27886402	6768296	34654698	19.53
Georgia	29850981	6733976	36584957	18.41
Kentucky	21621501	5113015	26734516	19.13
Mississip	20831652	6397066	27228718	23.49
No Caroli	32486186	7662784	40148970	19.09
So Caroli	23495192	5696616	29191808	19.51
Tennessee	22191163	5405630	27596793	19.59
Seminoles	85950	41861	127811	32.75
Miccosouk	22792	11100	33892	32.75
ChoctawMS	245341	95713	341054	28.06
ECherokee	319316	111760	431076	25.93
Subtotal	198003058	49066145	247069203	19.86
MWRO				
Illinois	36400236	8834121	45234357	19.53
Indiana	15260917	3614334	18875251	19.15
Michigan	30238142	7624116	37862258	20.14
Minnesota	15379087	4310794	19689881	21.09
Ohio	37359556	10647507	48007063	22.18
Wisconsin	18152331	4554512	22706843	20.06
Subtotal	152790269	39585384	192375653	20.58

STATE AGENCIES	TOTAL FY 1993 FOOD GRANT	TOTAL FY 1983 ADMIN GRANT	TOTAL FY 1983 GRANT	ADMIN/ TOTAL RATIO
SWRO				
Arkansas	9907371	2444222	12351593	19.79
Louisiana	29255685	7355874	36611559	20.09
New Mexico	4983999	1382843	6366842	21.72
Oklahoma	13513989	3433059	16947048	20.26
Texas	51810033	12174109	63984142	19.03
ACL*	185678	66544	252222	26.38
Acoma*	12950	4532	17482	25.92
8 No Pueb	173802	60825	234627	25.92
Isleta	159103	76810	235913	32.56
SanDoming	151357	52975	204332	25.93
Five Sand	213349	74672	288017	25.93
San Felip	99096	34683	133779	25.93
WCD Ent	604430	210211	814641	25.80
ChoctawOK	604143	211451	815594	25.93
CherokeOK	1589803	438160	2027963	21.61
ChickasOK	312712	109450	422162	25.93
Tonkawa	179089	62681	241770	25.93
Potawatam	320731	112254	432985	25.93
Zuni	139603	48859	188462	25.93
Subtotal	114216919	28354214	142571133	19.89
MPRO				
Colorado	9244412	2533259	11777671	21.51
Iowa	9901943	2360378	12262321	19.25
Kansas	6428773	1850430	8279203	22.35
Missouri	20220700	4762652	24983352	19.06
Montana	3574810	1168101	4742911	24.63
Nebraska	4115965	1319927	5435892	24.28
No Dakota	3245391	1110976	4356367	25.50
So Dakota	2781720	937326	3719046	25.20
Utah	5825622	1951528	7777150	25.09
Sho/Arapa	176826	63627	240453	26.46
Ute Mtn	36340	14397	50737	28.38
Winnebago	238540	76393	314933	24.26
Chey Rive	280325	89099	369424	24.12
Rosebud	553352	162837	716189	22.74
StandRock	410999	117330	528329	22.21
Ft Bertho	170754	48119	218873	21.98
Wyoming	2166292	694262	2860554	24.27
Subtotal	69372764	19260641	88633405	21.73
WRO				
Alaska	1340728	515701	1856429	27.78
Arizona	9448859	2516738	11965597	21.03
Californi	79310807	17020273	96331080	17.67
Hawaii	2206327	739163	2945490	25.09
Idaho	4358463	1270020	5628483	22.56
Nevada	3947237	1103287	5050524	21.85
Oregon	10276198	2754070	13030268	21.14
Washingto	11809188	3147888	14957076	21.05
ITCN	387479	132718	520197	25.51
Maniilaq	175845	69305	245150	28.27
Navajos	7359920	1507572	8867492	17.00
Guam	434112	154843	588955	26.29
Subtotal	131055163	30931578	161986741	19.10
TOTAL	925600006	231400004	1157000010	20.00

JOB SEARCH

Question: The notes indicate that $65 million is being spent on job search activities in the Food Stamp Program in Fiscal Year 1983. Please explain how these funds are being spent.

Answer: In Fiscal Year 1983 job search activities will be funded through contracts with State agencies and will be financed entirely by the Federal government.

To date, we have obligated $30 million for the work registration/job search contracts. We are currently exploring the feasibility of providing additional funding to the States to expand the services defined in these contracts.

We do not anticipate that the entire $65 million will be needed for work registration/job search activities. Any unused funds from this program may be needed for other food stamp expenses. However, should there be any funds remaining at the close of the fiscal year, they will be returned to the Treasury.

FOOD STAMP PROVISIONS

Question: FNS provided the committee last year with a list of anti-fraud and abuse provisions of law enacted to stem such problems in the food stamp program since 1979. The majority of those provisions had not been implemented at the time of the FNS reply. Please update this list for the committee again stating all of the provisions of law in the list provided to the committee last year, any new provisions enacted since that time and a status report on each provision.

Answer: The list is provided as requested.

1980 AMENDMENTS TO THE FOOD STAMP ACT

(May 26, 1980)

Provision: Optional Retrospective Accounting (Sec. 107): Superseded by Sec. 107 of the 1981 Reconciliation Act.

Provision: Optional Administrative Fraud Hearings (Sec. 109)

Purpose: Permits States to substitute court action for fraud hearings.

Status:
- Proposed rule issued 1/16/81
- Final rule published 4/23/82

Provision: Optional Periodic Reporting (Sec. 110): Superseded by Sec. 108 of 1981 Reconciliation Act.

Provision: Income of Ineligible Aliens (Sec. 115)

Purpose: Requires counting of income of ineligible alien to household except for alien's prorata share (formerly all alien income excluded)

Status:
- Proposed rule issued 1/16/81
- Final rule issued 4/23/82

Provision: Verification (Sec. 116)

Purpose: Permits States to verify an eligibility factor identified by an error-prone profile.

Status:
- Proposed rule issued 8/12/80
- Final rule issued 1/13/81

Provision: Photo Identification (Sec. 117)

Purpose: Mandates photo ID's to transact an ATP in certain urban areas

Status:
- Proposed rule issued 1/23/81
- Final rule issued 10/9/81
- Implemented by 11/82

Provision: Reporting Illegal Aliens (Sec. 118)

Purpose: Requires States to notify Immigration and Naturalization Service of known illegal aliens

Status: - Proposed rule issued 1/16/81
- Final rule issued 4/23/82

Provision: Computerization and 75% Funding (Sec. 119 and 129)

Purpose: Permits States to receive 75% funding for ADP development (but not operation) if system meets standards set by Secretary.

Status: - Proposed rule issued 8/11/81
- Final rules published 6/11/82

Provision: State Compliance with Law (Sec. 120)

Purpose: Secretary shall refer to OIG for investigation reported cases with a pattern of noncompliance.

Status: - No rulemaking, considered self-implementing

Provision: Financial Audit of High Participating States (Sec. 123)

Purpose: Require OIG to conduct special audit of any State when the food stamp participation exceeds 60% of total population.

Status: - No rulemaking, considered self-implementing

Provision: Forfeiture of Property Used in Illegal Food Stamp Transactions (Sec. 124)

Purpose: Permits USDA to retain goods bought by investigators with coupons · during investigations.

Status: - No rulemaking, considered self-implementing

Provision: State incentives for reducing errors (Sec. 125)

Purpose: Permits States to earn 55%-65% administrative funding by reducing quality control error rate

Status:
- Proposed rule issued 10/3/80
- Final rule issued 1/23/81

Provision: State liability for errors (Sec. 26)

Purpose: Holds States leable for quality control dollar error rates which exceed standards set by Secretary.

Status:
- Proposed rule issued 10/3/80
- Final rule issued 1/23/81

Provision: Wage matching and information disclosure (Sec. 127)

Purpose: Permits States to access Social Security Administration (SSA) wage files to match information provided by applicants (Act delayed access to unemployment compensation wage files until January 1983. 1981 Farm Act: requires wage match to SSA and unemployment compensation files by January 1983)

Status:
- Proposed rule issued 7/10/81
- Final rule published 5/7/82

THE OMNIBUS BUDGET RECONCILIATION ACT OF 1981
(August 13, 1981)

Provision: Family Unit Requirement (Sec. 101)

Purpose: Prevents household from artificially dividing to obtain more food stamps.

Status:
- Interim rule issued 9/4/81
- Final rule issued 11/19/82

Provision: Boarders (Sec. 102)

Purpose: Prevents households from artificially dividing to obtain more food stamps.

Status: - Interim rule issued 9/4/81
- Final rule issued 11/19/82

Provision: Retrospective Accounting (Sec. 107)

Purpose: Requires State agencies to calculate benefits using known rather than antiicpated circumstances.

Status: - Interim rule issued 5/25/82

Provision: Periodic Reporting (Sec. 108)

Purpose: Requires households to report circumstances periodically or be terminated.

Status: - Interim rule issued 5/25/82

Provision: Eligibility of Strikers (Sec. 109)

Purpose: Prevents households from striking and thereby becoming eligible for food stamps or increasing their benefits.

Status: - Interim rule issued 9/4/81
- Final rule issued 11/19/82

Provision: Prorating First Month's Benfits (Sec. 110)

Purpose: Compute benefits based on date of application.

Status: - Interim rule issued 9/4/81
- Final rule issued 5/14/82

Provision: Disqualification Penlties for Fraud and Misrepresentation (Sec. 112)

Purpose: Increases the penalty for recipient fraud and misrepresentation.

Status: Final rule published 2/15/83

Provision: Improved Recovery of Overpayments (Sec. 113)

Purpose: Requires households to repay overissuances.

Status: Final rule published 2/15/83

Provision: States' Share of Collected Claims (Sec. 114)

Purpose: Permits State agencies to keep 25 percent of any overissuances they recover, except those from State agency error.

Status: Final rule published 2/15/83

THE 1981 FOOD AND AGRICULTURE ACT
(December 22, 1981)

Provision: Energy Assistance Payments (Sec. 1306)

Purpose: Restricts the kinds of State agency assistance payments that can be excluded from the calculation of benefits.

Status: - Proposed rule issued 9/14/82
- Final rule to be published 4/15/83

Provision: Attribution of Income and Resources to Sponsored Aliens (Sec. 1308)

Purpose: Counts as an alien's income and resources the income and resources of the alien's sponsor.

Status: - Interim rule issued 12/10/82
- Final rule pending

Provision: Resources (Sec. 1309)

Purpose: Permits USDA to simplify the assessment of vehicles.

Status: - Proposed rule issued 11/19/82
- Final rule pending

Provision: Work Requirements (Sec. 1311)

Purpose: Disqualifies a certified household for two months if the head of the household quits a job.

Status: - Proposed rule not yet issued: at OMB since 2/2/83

Provision: State Issuance Liability (Sec. 1312)

Purpose: Makes State agencies liable for coupon losses and ATP losses. Makes issuing agents liable in some cases.

Status: - Proposed rule not yet issued

Provision: Access of Comptroller General to Information (Sec. 1313)

Purpose: Gives the Comptroller General access to food stamp case files.

Status: Proposed rule to be issued 4/15/83

Provision: Notice of Verification (Sec. 1317)

Purpose: Requires States to place on the application form a warning that information may be verified and that incorrect information could lead to denial and prosecution.

Status: Final rule issued 8/13/82

Provision: Information (Sec. 1321)

Purpose: Requires State agencies to match food stamp cases with wage information from Social Security and unemployment compensation agencies.

Status: Final rule published 11/5/82

Provision: Minimum Mandatory Court Sentence for Criminal Offenses; Work Restitution Program (Sec. 1324)

Purpose: Permits imprisonment for the first criminal conviction and requires imprisonment for subsequent criminal convictions for illegal use of food stamps. Permits sentencing to work restitution to repay losses to the Federal or State government.

Status: - Final rule issued 8/13/82

Provision: Social Security Account Numbers (Sec. 1327)

Purpose: Requires food stamp applicants to furnish social security account numbers as a condition of eligibility.

Status: - Proposed rule issued 4/2/82
- Final rule issued 11/26/82

Provision: Workfare (Sec. 1333)

Purpose: Permits any political subdivision to require food stamp recipients to work as compensation for their food stamps.

Status: - Final rule issued 10/8/82

Provision: Disclosure Provision (Sec. 1319)

Purpose: Requires disclosure of casefile and other information to law enforcement and other officials.

Status: - Final rule issued 8/13/82
Provision: Elimination of 60 day Continuation of Benefits (Sec. 1316)

Purpose: Eliminates carryover of certification for 60 days when recipient moves.

Status: - Final rule issued 8/13/82

Provision: Posting Signs in Retail Stores (Sec. 1314)

Purpose: Requires stores to post signs explaining how to report violations.

Status: - Proposed rule issued 9/10/82
- Final rule not yet issued

Provision: Authority Granted to OIG to Carry Firearms (Sec. 1337)

Purpose: Allows OIG to carry firmarms, make arrests without warrant and execute arrest warrants.

Status: - Final rule issued

1982 Amendments to the Food Stamp Act
(September 8, 1982)

Provision: Household Definition (Sec. 142)

Purpose: Considers as one household those nonelderly/nondisabled siblings, as well as nonelderly/nondisabled parents and children who live together.

Status: -Interim rule issued 12/14/82
-Final rule pending

Provision: Standard Utility Allowance (Sec. 149)

Purpose: Limits standard utility allowance to households that incur heating/cooling expenses and do not live in public housing units with central meters. Requires allowance to be prorated among separate households. Makes use of standard utility allowance a State agency option, with FNS approval. Deletes requirement to reflect seasonal cost variations.

Status: -Interim rule issued 11/16/82
-Final rule starting clearance

Provision: Categorical Eligibility (Sec. 153)

Purpose: State agency may accept AFDC resource test as fulfillment of FSP resource test

Status: -Interim rule issued 12/14/82
-Final rule pending

Provision: Job Search (Sec. 157)

Purpose: Allows State agency the option to impose job search requirements at application

Status: -Proposed rule in clearance

Provision: Voluntary Quit (Sec. 158)

Purpose: Lengthens disqualification period for noncompliance from 60 to 90 days. Applies voluntary quit rule to Federal, State or local employee who is prohibited from striking but participates in a strike

Status: -Proposed rule in clearance

Provision:' Alternative Issuance (Sec. 162)

Purpose: Lets FNS require States to adopt alternate issuance system if FNS finds current system is not working well. Alternative systems may include electronic benefits transfer systems or other innovative solutions to current problems.

Status: -Proposed rule not yet issued

Provision: Initial Allotments (Sec. 163)

Purpose: Mandates proration of benefits after a break in participation of any time period

Status: -Interim rule issued 12/14/82
-Final rule pending

Provision: Noncompliance with other Programs (Sec. 164)

Purpose: Prohibits any increase in food stamp benefits to households on which a penalty resulting in a decrease in income has been imposed for intentional failure to comply with Federal, State or local welfare laws.

Status: -Proposed rule issued 4/15/83

Provision: House-to-House Trade Routes and Increased Penalties for Violators (Sec. 165 and Sec. 175)

Purpose: Lets FNS, where FNS and OIG find that the operation of trade routes damages program integrity, restrict trade route operation to those needed by recipients. It also specifies more severe penalties for violations of the rules by authorized retailers and wholesalers.

Status: -Interim rule issued 12/17/82
-final rule not yet issued

Provision: Disclosure (Sec. 169)

Purpose: Provides authority to disclose food stamp information to Federal assistance programs and federally assisted State programs.

Status: -Proposed rule issued 4/15/83

Provision: Expedited Service (Sec. 170)

Purpose: Imposes a maximum allowable limit of $100 in liquid resources and limits expedited services to households with less than $150 in monthly gross income or destitute migrant or seasonal farm workers. Verification of income and liquid resources to the extent practicable in the 5-day issuance period will be required.

Status: -Interim rule issued 11/30/82

Provision: Duplicate Participation (Sec. 172)

Purpose: Requires States to establish a system to verify that no individual is receiving food stamps in more than one area in a State.

Status: -Interim final rule published 3/1/83

Provision: Cashed-Out Programs (Sec. 174)

Purpose: Requires States to verify that SSI recipients in cash-out States and participants in cash-out demonstration projects do not also receive food stamps.

Status: -Interim final rule published 3/1/83

Provision: Bonding of Previously Penalized Firms (Sec. 176)

Purpose: Requires that authorized retailers and wholesalers who have received a sanction for violations of the regulations, as a condition of reauthorization, or of continued authorization, post a bond which will ensure that FNS can collect any fiscal claim which it may establish to recover losses due to future violations of the regulations.

Status: Proposed rule not yet issued

Provision: Alternative Claims Collection (Sec. 177)

Purpose: Authorizes State agencies to use collection methods other than benefit reduction as cash repayment to recover overissuances.

Status: -Final rule published 2/15/83

Provision: Claims Collection Procedure (Sec. 178)

Purpose: Requires use of allotment reduction to recover overissuance from participating households which have not chosen to repay in cash or allotment reduction for repayment of an overissuance from inadvertent error or intentional violation.

Status: -Final rule published 2/15/83

Provision: Cost Sharing for Claims Collection (Sec. 179)

Purpose: Prohibits State agencies from retaining any amounts recovered from overissuances resulting from State agency errors.

Status: Final rule published 2/15/83

Provision: Error Rate Reduction System (Sec. 180)

Purpose: Requires States to achieve progressively reduced payment error rates in FY 83, FY 84 and FY 85 or meet a certain percentage reduction or have their administrative funding cut.

Status: -Interim final rule being cleared

RATES

Question: Please provide the committee with quarter-by-quarter assumptions for unemployment rates and participation rates used in the current services budget for food stamps and the quarter-by-quarter participation rates under the proposed budget assuming the enactment of the legislative proposals.

Answer: The information requested is shown in the following table for Fiscal Years 1984 through 1986. The number of participants under our proposed legislation is the same as the current service levels in each quarter.

Fiscal Year Quarter		Number of Participants (in millions)	Unemployment Rate (Percent)
1984:	1	21.53	10.60
	2	22.08	10.40
	3	21.60	10.10
	4	20.95	9.90
1985:	1	20.67	9.60
	2	21.14	9.40
	3	20.67	9.10
	4	20.03	8.90
1986:	1	19.77	8.60
	2	20.26	8.50
	3	19.91	8.30
	4	19.34	8.10

PROJECTS

Question: What projects are currently being carried out with the $9.9 million available for research evaluation and demonstration in Fiscal Year 1983 and for what would the increase requested be used?

Answer: The increase for studies and demonstration projects in the Food Stamp Program is necessary to cover the costs of two new and significantly large efforts, the Alternate Issuance Project and the Study of the Effects of Legislated Changes. The Alternate Issuance Project will demonstrate and evaluate both electronic and paper based systems which are alternatives to the current procedures for issuing food stamps to recipients. This project is intended to deliver benefits more efficiently while avoiding some difficult problems of waste and fraud. The Study of Effects of Legislated Changes will assess on a national basis the effects of the recent sweeping changes in the Food Stamp Program associated with the Omnibus Budget Reconciliation Act of 1981.

The research projects currently being carried out with Fiscal Year 1983 funding are listed below:

RESEARCH, DEMONSTRATION AND EVALUATION

SECTION 17 FOOD STAMPS

	83 ($000)
Puerto Rico Study	
Describe and assess the conversion from the Food Stamp Program in Puerto Rico to the Nutrition Assistance Program. Assess the impacts on Program participation, administrative costs, benefits, and food purchases.	500
Microsimulation	
Support the development, operation and improvement of statistical models which forecast costs and participation rates in the Food Stamp Program under various policy options.	800
ERS Agreement	
Conduct reanalyses of the Nationwide Food Consumption Survey and other relevant data sources to improve the precision of food stamp program participation forecasts. This effort will allow FNS to make more accurate budget estimates to operate the Food Stamp Program.	80
Expedited Service	
Estimate the number and characteristics of participants receiving expedited service in the Food Stamp Program.	350
Thrifty Food Plan	
Collect data to support the determination of the Thrifty Food Plan and benefit levels for Guam and the Virgin Islands.	110
Alternative Issuance	Demonstration
Demonstrate and assess the costs and effects of alternative Electronic Benefit Transfer Systems as a means of issuing food stamps	2,900
	Evaluation
	1,800
Application Simplification	Demonstration
Demonstrate and assess the costs and effects of simplified food stamp application procedures for AFDC recipients who also apply for food stamps.	400
	Evaluation
	2,852
Effects of Recent Legislative Changes	50
Will evaluate effects on participation, benefit costs, and administrative costs of changes mandated by the OBRA of 1982.	

Question: Please summarize the findings of the evaluation of the SSI/Elderly Cash-Out Project.

Answer: Costs associated with the issuance of checks ($1.17 per month per household) were 36% lower than the issuance costs associated with coupons ($1.84 per month per household).

The participation of elderly households receiving SSI benefits and of SSI recipient non-elderly households did not increase. The participation of elderly households not receiving SSI increased by approximately nine percent. The latter population has the lowest rate of participation of those groups participating in the demonstration estimated to be between 20 and 40 percent of program eligibles and is therefore most likely to experience an increase in participation.

Food Stamp benefits whether provided as cash or coupons increased household food expenditures between $3 and $5 per household per month.

There was no significant difference in food expenditures between households receiving cash and coupon benefits.

There was no evidence that cash-out weakens the link between Program benefits and dietary intake.

It should be noted that these findings are applicable only to the pure elderly and SSI recipients in the Food Stamp Program. Given the special characteristics of these households, these findings cannot be imputed to the entire Food Stamp population.

WORK REGISTRATION/JOB SEARCH

Question: The notes indicate a review of the effectiveness and cost of various work registration and job search procedures. When do you expect some results of this evaluation effort to be complete?

Answer: Evaluation of the Work Registration/Job Search Project operations is being performed by an independent contractor. The final report on the results of the first round of project operations is due in September 1983. The report on the results of operations at the new sites is due in December 1984.

Question: The budget proposes that all job search activities be funded through the States. Is not this proposal premature without having the benefit of the evaluation of the demonstration projects currently ongoing?

Answer: No, our proposal is not premature. It is needed now to ensure that non-exempt food stamp receipients throughout the country are subject to the work requirements contained in the legislation. Last year's legislation removed the requirement that work registration and job search activities be jointly administered with the Department of Labor but did not specify who has responsibility for their administration. On this basis, we have been operating with a somewhat unusual funding mechanism this year -- contracts with interested State agencies at a 100 percent Federal reimbursement rate. Thus, job search activities are already being funded through the States but FNS has no ability to require State agencies to sign contracts. Our proposal would clearly place the administration of job search in the sphere of State agency responsibility, subject to standard cost-sharing arrangements. This change would guarantee that the requirements are implemented nationwide with minimum complexity in the transfer of funds. The proposal, however, does not prescribe methods by which State agencies should administer the requirements. Without results of the demonstration, it would be premature to specify methods to be used. The proposal continues to provide States with broad latitude in choosing how to structure work registration and job search programs.

Question: What would be the impact of continuing the current funding method of job search in Fiscal Year 1984?

Answer: The 1984 Budget reflects the Food and Nutrition Service's plan to share the cost of job search with the State agencies. FNS has prepared a regulatory package that would formally transfer to the States a share of the responsibility for providing job search services. Upon final publication of this rule, all States would be required to operate a job search program and would equally share the cost of the program with the Federal government.

If this law is not passed the Federal government would assume the total cost for this program in Fiscal Year 1984. Funding to conduct job search would be provided to the individual State agencies in the form of a grant or a contract as was done this Fiscal Year.

Question: Would the States be required to increase their contribution for administrative costs in order to continue the same level of job search activities under the proposed budget in Fiscal year 1984?

Answer: Yes, they would be required to assume half the costs of administering work registration and job search activities for which they now pay nothing. To date, approximately $30 million has been obligated for these activities in Fiscal year 1983. The level of activity is expected to increase next year, however. Collectively, States are expected to be liable for approximately $34.2 million for support of work registration and job search activities in Fiscal Year 1984.

Question: What would happen if a State did not pick up its share of job search costs in Fiscal Year 1984?

Answer: The 1984 Budget reflects the Food and Nutrition Service's plan to share the cost of job search with the State agencies. FNS has prepared a regulatory package that would formally transfer to the States a share of the responsibility for providing job search services. Upon final publication of this rule, all States would be required to operate a job search program and would equally share the cost of the program with the Federal government.

If a State agency does not implement the regulations requiring the sharing of costs of job services, FNS will issue a warning letter to the agency for noncompliance with the regulations. If a State agency continues in noncompliance, a fiscal sanction will be issued for the reimbursement costs.

PUERTO RICO

Question: The Omnibus Budget Reconciliation Act of 1982 prohibits Puerto Rico from distributing cash for nutrition assistance after Fiscal Year 1983. What are their current intentions for their program and has any evaluation of the current delivery program been completed.

Answer: Puerto Rico is proposing to replace their current cash Nutrition Assistance Program with a voucher issuance system. Vouchers will contain the recipient's name and will only be redeemable at authorized food stores for food items. The voucher system will cost four million dollars more to operate than the present check issuance system. Final specifications for the new system will be submitted for Department approval by the Commonwealth in its Fiscal Year 1984 plan of operation.

The Department completed an evaluation of the current cash program as mandated by the Omnibus Budget Reconciliation Act of 1982. A final report was submitted to the House and Senate Agriculture Committees on March 9, 1982.

ELDERLY FUNDING LEVEL

Question; On a current services basis, what level of funding would be required by FNS for the elderly feeding program for Fiscal Year 1984?

Answer: Based on the level authorized in the law the funding level would be $105 million.

FOOD PROGRAM ADMINISTRATION

Question: The budget proposes a significant reduction in funding and staff years associated with food program administration. How will this reduction impact on your ability to effectually monitor and carry out the food programs? Will this reduction result in a RIF of personnel and the closing of any field offices?

Answer: Of the total reduction, $965,000 and 33 staff years would not be necessary if the Congress passes legislation to establish the General Nutrition Assistance Grant. The balance of the reduction will come from continuing to improve our administration of the food assistance programs. We will accomplish this with fewer people and funds. No reductions-in-force are planned and we do not plan to close any field offices. We will continue reviewing all our operations to determine where we can simplify and streamline our work and as attrition occurs, shift our staff to higher priority work.

Question: What administrative changes have been initiated which would allow you to operate at this lower level of funding and maintain current program oversight capabilities?

Answer: The key initiatives which have permitted the Agency to better target and reduce resources include:

- o Decentralization of accounting activities and the development of an automated accounting system; reductions in receivables and closure of outstanding debts totaling $17.5 million; replacing the Food Stamp Program in Puerto Rico with the nutrition assistance block grant; developing a new system to increase the accountability of food stamp retailers and banks which handle food stamp coupons; simplifying regulations and reviewing and reducing reporting requirements; developing an automated quality control system; and reorganizing family nutrition divisions.

PROCESS CHEESE

Question: There have been recent indications that current requests for process cheese from States are exceeding our capacity to process cheese from CCC inventories. Is that currently the case?

Answer: Yes, it is. As orders for April delivery of process cheese began to exceed the quantities available we found it necessary to prorate the cheese that was available. ASCS estimates that approximately 35 million pounds of process cheese can be acquired monthly through processing contracts. This is considerably less than the present demand for process cheese.

Question: Has consideration been given to having CCC contract for delivery of new cheese under the price support program in processed form so it can be used to offset the current shortfall?

Answer: This is already being done. ASCS is already accepting process cheese as well as cheddar cheese under the price support program. Because of the limited availability of process cheese, the Department has entered into a contract to have 39 million pounds of cheddar cheese in 40 pound blocks cut and repackaged into 1, 2 and 5 pound portions to be distributed to domestic outlets participating in the special distribution to the needy in May, June and July.

WIC PROGRAM ABUSES

Question: You have indicated that you are increasing efforts to identify and punish vendors who are abusing the WIC Program. Please describe what kind of abuse is taking place and if any additional legislation is needed to help prevent this from happening.

Answer: Audits, investigations and management evaluations have identified a limited degree of vendor abuses in the WIC Program. These range from minor violations, such as substitution of orange drink for orange juice, to more severe offenses, which appear to be rare, such as charging the State more than the value of food provided or providing cash for WIC vouchers. So far, we lack comprehensive data on vendor abuse since reported audits or investigations have only covered a small number of vendors identified in advance as likely abusers of the WIC Program. Beginning in 1984 States will annually report detailed information on vendor monitoring which will provide a more representative and comprehensive picture of WIC vendor abuse.

we issued new Food Delivery Systems Regulations in May 1982 to increase vendor monitoring efforts and decrease abuse. These regulations must be implemented by May 1983. We believe that the regulations adequately provide for prevention and detection of vendor abuse, but we cannot be certain of their effectiveness until the regulations have been fully implemented for a while. At this time, we have no recommendations for legislative change.

WORKFARE PROPOSAL

Question: What would be the administrative costs associated with the workfare proposal in Fiscal Year 1984?

Answer: It is estimated that a mandatory nationwide workfare program for food stamp work registrants and food stamp work recipients who are not work-registered because they are complying with the work requirements of the unemployment compensation program would generate annual State and local administrative costs of $210 million in Fiscal Year 1984. Under the administation's proposal, half these costs of $105 million would be reimbursed by the Federal government.

HUMAN NUTRITION INFORMATION SERVICE

Senator COCHRAN. Ms. Wolf, I don't want you to think that we have been ignoring you, or that the Human Nutrition Information Service isn't important just because we have taken up so much time today with the Food and Nutrition Service. If you have a statement or any summary comments you would like to make about the request for the Human Nutrition Information Service, we would be happy to hear them at this time.

Ms. WOLF. Yes; I am submitting, of course, my complete testimony. I am accompanied by Dr. Robert Rizek and Dr. Catherine Woteki of my staff. I have been acting in this capacity for a few months, so if you have any questions you will have to permit me to defer to them.

It is a pleasure to be here today to present our budget for fiscal year 1984.

Human nutrition is an integral part of USDA, and for 100 years USDA has been the primary source of information on the nutrient content of food. This component, together with recent laboratory activity, forms the basis for nutrition information dissemination to the American public. The Human Nutrition Information Service was formed in 1981 from the applied research, nutrition education, and nutrition information groups within USDA. I believe that this was described in last year's hearings.

HNIS ORGANIZATION AND MISSION

The Human Nutrition Information Service consists of three operating units: the Consumer Nutrition Division, the Nutrition Guidance and Education Research Division, and the Food and Nutrition Information Staff.

The mission of the Human Nutrition Information Service is to perform applied research in human nutrition aimed at improving professional and public understanding of the nutritional adequacy of diets and the nutrient value of foods; also, to develop the knowledge needed to help the public make informed food choices.

FISCAL YEAR 1984 BUDGET REQUEST

The fiscal year 1984 request is for $6.6 million. This is a reduction of $1.6 million from the fiscal year 1983 request. This is possible due to termination of work, mostly contracts, already scheduled for fiscal year 1983. For example, the nutrient data bank revision, as well as the pilot survey of low-income groups, are scheduled for completion within fiscal year 1983. A budget of $6.6 million will allow the Human Nutrition Information Service to continue major work on the nationwide food consumption survey.

Activities to be performed to accomplish the fiscal year 1984 mission are described as follows:

NATIONWIDE FOOD CONSUMPTION SURVEY

The majority of the budget of our agency is devoted to the nationwide food consumption survey (NFCS). This is the cornerstone of Federal efforts to monitor the overall dietary status of the American people. The NFCS consists of two parts. The first part is a series of short-term surveys of individuals for assessing different food patterns in the population. There are different subgroups involved in these surveys, such as the elderly, low-income population, and teenage girls. These surveys allow us to continually monitor food consumption trends.

The second part of the survey—and this is the one most familiar to the public—is the household food consumption survey which is conducted every 10 years. The next household survey is slated for 1987.

The purpose of the nationwide food consumption survey is to provide food and diet-related information for use in our domestic food assistance programs, as well as in USDA's other education and extension activities. Nationwide food consumption survey information is also used in regulatory activities by both the Food and Drug Administration and the Department of Agriculture. In turn, the NFCS information is used by both the private and public sectors for marketing and economic analyses. The fiscal year 1984 budget request will allow us to complete field testing new survey methods for determining individual food intake patterns in a monitoring group, to complete preparation for the 1987 nationwide food consumption survey, and to initiate some planning for individual surveys planned for 1985.

NATIONAL NUTRITION MONITORING SYSTEM

The national nutrition monitoring system consists of both USDA's nationwide food consumption survey, as well as the Department of Health and Human Services health and nutrition examination survey (HANES). USDA is working with Health and Human Services to coordinate work being done on both of our surveys. At the present time, we are looking at the aspects of our surveys that overlap in order to integrate our data-gathering activity as much as possible.

USDA has contracted with the National Academy of Sciences to hold a data-users conference for people who use our survey. We have been joined by DHHS in this effort to coordinate overlapping aspects of the two surveys. The HANES survey does have an overall different thrust than our USDA survey in that it collects clinical and laboratory information and it is mainly concerned with health aspects of food consumption.

NUTRIENT DATA BANK AND HANDBOOK 8

We will continue work on the nutrient data bank and continue to compile and disseminate information on the nutrient composition of foods. The nutrient data bank is a computer system that stores information on the nutrient content of foods. We will also continue the updating of Handbook 8 which gives the nutritive value of all raw, processed or prepared foods. The nutrient data bank and Handbook 8 are the primary sources on the nutrient content of foods in the United States and are probably the primary sources of this information worldwide. This information is basic to the conduct of nutrition research. It is also needed to interpret the data collected in both the nationwide food consumption survey and the Health and Human Services' HANES survey.

FOOD AND DIET APPRAISAL

We will continue our work on food and diet appraisal. With information from the nationwide food consumption survey, the nutrient data bank, and other research, U.S. diets are appraised and information is developed to help educators and consumers improve their food choices. We will continue to work on the various food plans—the liberal, moderate, low cost, as well as the thrifty food plan, which serves as the basis for the food stamp program allotment.

NUTRITION INFORMATION AND RESEARCH

Our nutrition information and applied research activities will continue. USDA is the lead agency in nutrition education and the development of research-based nutrition education materials. Much of this material is targeted at special groups within the population—low income, the elderly, and the mothers with young children. We will continue to seek innovative ways and effective strategies for reaching the citizens with that information. We will continue to concentrate on disseminating information to professionals through an active program of professional education, the development of research-based materials, conclusion of our work in the Agricola data base and special food and nutrition information staff projects.

One example of some of our innovative programs for reaching professionals is that on Thursday of this week we will have a teleconference which will be received at 122 different sites across the country and attended by over 10,000 nutrition and health professionals on the subject of infant and maternal nutrition. We are cooperating with DHHS in this effort.

The goals of our nutrition education efforts are to increase public and professional understanding of the nutrient adequacy of diets and food supplies, to develop the knowledge needed to increase the nutritional quality of American diets, and to collect and disseminate technical and educational materials on food and nutrition. We have been active, and will continue to be, in various private sector initiatives. We, in cooperation with the American Red Cross and the USDA Extension Service, have developed a nutrition course that will be taught by volunteers at 220 American Red Cross chapters across the country. We are involved in other teleconferences planned for professional nutrition and education activities.

That concludes my statement, Mr. Chairman. I would be happy to answer any questions.

Senator COCHRAN. Thank you, Ms. Wolf.

NUTRITION PUBLICATIONS

To what extent do you make available information to the public in the form of written materials, pamphlets, and the like, providing information on human nutrition?

Ms. WOLF. In September of 1982, the Department adopted a user fee policy for publications, and the ones we do have available for the general public are now primarily available through the Government Printing Office.

Senator COCHRAN. Are many of these materials purchased by members of the public?

Ms. WOLF. I would not have any statistics on that. We can get them.

[The information follows:]

Free distribution of nutrition publications, as well as publications on other topics, prepared by USDA personnel has been discontinued. In March 1983, HNIS received about 5,000 requests for food and nutrition publications—in excess of 230 requests per workday. Some requests were filled with remaining stocks of publications. Most requests, however, were responded to with a publications list and a letter suggesting that the publications might be ordered from the Superintendent of Documents, U.S. Printing Office.

Currently, the Superintendent of Documents sells 21 HNIS popular publications on food and nutrition topics at prices ranging from $2.25 to $6. About 140,000 of these HNIS publications were sold in fiscal year 1982. Over one-half of the sales—72,000—were "Nutrition and Your Health: Dietary Guidelines for Americans," available at a special rate of $27 per 100 copies The Superintendent of Documents also sells the technical publications prepared by HNIS.

Efforts have been initiated to work with the private sector in getting the publications to the public. For example, two manuscripts prepared by HNIS personnel have been published and are being distributed by the American Dietetic Association. Also, our staff is working with the American Red Cross in the preparation of publications for a nutrition course to be offered to the public by community leaders.

Senator Cochran. Isn't there another agency within the Department that is in charge of printing and disseminating information? Isn't this the job of the Office of Governmental and Public Affairs?

Ms. WOTEKI. That is correct.

Senator COCHRAN. Do they make this material available to the public? Do you compile the information?

Ms. WOTEKI. That is the way it used to work. Under the current system, we develop the materials, sometimes working in conjunction with the Office of Governmental and Public Affairs; it depends on the nature of the publication. Then the Government Printing Office prints those materials and makes them available to the public. Within Human Nutrition Information Service we maintain a list of current publications that are available to the Government Printing Office. When requests are submitted to us, we provide the list, what the current price is, and also, if there is a Government Printing Office bookstore in the neighborhood of the person who has made the request, we provide them with the address of that bookstore.

Ms. WOLF. I would like to also point out that, frequently, materials are developed by USDA and then picked up by the State and, for example, published by the State Extension Service. So there are other methods by which materials developed by HNIS get out to the public.

Senator COCHRAN. Has the requirement for the payment of fees diminished the requests for information developed by HNIS? Do you have any figures or information that would support an answer to that?

Ms. WOLF. I'm sorry, we don't have any firm figures on that at this time.

COOPERATION WITH HHS

Senator COCHRAN. Is there any extent to which your work is duplicated by another agency at HHS? Do you work in cooperation with any other Federal agency in coordinating information that is made available to the public on nutrition matters?

Ms. WOTEKI. The answer to that is yes and no. For instance, the importance of sodium—high levels of consumption of sodium by the U.S. population—has been recognized by both the Department of Health and Human Services and the Department of Agriculture as a topic on which the public should be provided information, so if they choose to lower the amounts of sodium in their diets, they can. We have worked closely with the Food and Drug Administration in the Department of Health and Human Services and the Food Safety and Inspection Service within our own Department of Agriculture to produce such educational materials for the general public on sodium. That is an example of working with another agency within USDA and with Health and Human Services.

The teleconference Ms. Wolf mentioned is to be conducted on a topic that is related to maternal and child and infant nutrition. That is a topic of concern to both Health and Human Services and USDA, and we have worked together in planning, funding and producing this teleconference. So I think it depends on the topic. If it is something that is of interest and concern to both departments, that determines whether or not we work actively with Health and Human Services.

Ms. JARRATT. In general, Mr. Chairman, we are trying to move our data bases more closely together. With the nutrition monitoring service the Congress has directed us to put together, we are working with the Department of Health and Human Services. They collect the health or HANES data, and we do the food consumption data. Up to now, the data base has been separate and unique to each survey. We are moving to merge the data bases and collect the data from the same group of participants.

In our educational efforts, we are cutting back some of the publications, but we are, at the same time, striving to find new ways to reach the public. For example, the teleconference technique is a less costly way for us to address that professional community than if we were to prepare the document in written form. It has been abbreviated, and it can be replayed at additional sites. So, that is an effort to try to train the nutritional professionals who then will take that information and deal in the clinical setting with the general public. Our objective, I think, has to be to train the nutrition professionals who then will work in the hospitals, dietary centers, in the WIC program, or wherever, with the general population.

NATIONAL ACADEMY OF SCIENCES STUDY

Senator COCHRAN. There was language included in last year's appropriations bill directing an assessment of a National Academy of Sciences report on meat in the diet. I think HHS is already working on a report to disseminate and interpret that study for the public. What is the status of that study?

Ms. WOLF. Yes, I believe the report you refer to is the National Academy of Science's "Diet and Cancer Report." We are in the final stages of preparing a comment on the report.

Senator COCHRAN. Is there any collaboration or communication between your office and the HHS agency which is making an assessment of the National Academy of Sciences study?

Ms. JARRATT. Yes, there is. We have prepared our own report separately. Within the next several weeks, we will be meeting with Dr. Bryant, Assistant Secretary for Health, and some of his personnel to discuss the reports.

Senator COCHRAN. Will there be an effort made to have a consensus report rather than contradictory messages going out to the public on this subject?

Ms. JARRATT. Well, I hope the messages are consistent. We prepared our analysis separately, but we will be reviewing our thinking in the next couple of weeks.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you very much for being here this morning and helping us understand the budget requests that are being submitted by these agencies. We will have some additional questions that we will submit to you in writing and hope that you will respond to them for the record.

Ms. JARRATT. We will be happy to, sir.

[The following questions were not asked at the hearing but were submitted to the Human Nutrition Information Service for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

FY 1984 HNIS BUDGET REQUEST

Question: The budget request for HNIS for fiscal year 1984 is $1.6 million below the fiscal year 1983 level, including pay supplemental. Why is there such a sizeable reduction in this program?

Answer: The budget request for FY 1984 is $1.6 million less than FY 1983 because of the work, mostly contracts, scheduled for completion in FY 1983. For example, the Nutrient Data Bank revision and the pilot survey of individual food intake patterns within low-income groups will be completed this fiscal year.

FY 1982 - 1983 ACCOMPLISHMENTS

Question: What has the Service accomplished in fiscal year 1982, and so far in fiscal year 1983?

Answer: The nature of HNIS research generally lends itself to steady progress rather than accomplishments. However, numerous research projects were completed in fiscal year 1982 and new ones are underway in fiscal year 1983, for which highlights are listed below:

Nutrient data research:

-- Analyses of the nutrient composition of selected foods helped fill information gaps in reference tables and survey analysis data files.

-- Compilation of data for two sections of Agriculture Handbook No. 8 was completed.

-- A food composition data quality index was developed and used for the first time in preparation of a publication on the iron content of foods.

-- An indepth review of the Nutrient Data Bank system revealed changes expected to improve efficiency.

Nationwide Food Consumption Survey (NFCS) research:

-- Descriptive data on food consumption and dietary levels from NFCS were compiled and results highlighted for 12 large reports and several articles and papers.

-- Studies were initiated to identify the most acceptable methods for collecting dietary data, and using them in a pilot study of dietary levels of individuals in low-income households.

-- Results of extramural studies to develop and test methods for measuring food discard in households were reviewed for potential usefulness in the next NFCS.

Food and diet appraisal research:

-- Zinc content of the U.S. food supply was estimated for the first time, revealing insufficient levels relative to the RDA.

-- Problem nutrients, e.g. calcium, iron, vitamin B-6, magnesium, vitamins A and C, were identified from NFCS data as being below the RDA levels for one-quarter to one-third of the U.S. population.

-- Levels and sources of dietary cholesterol, sugar, and sodium were estimated from NFCS data.

-- A study of the School Lunch and School Breakfast Programs was completed under HNIS contract, showing that the programs have positive effects on the nutritional quality of diets of participants.

-- A survey of low-income individuals, conducted for HNIS at the University of Missouri, found that the Food Stamp Program has slight but positive effects on diets of participants.

-- Dietary standards for use in developing the USDA family food plans were defined and the rationale described.

-- Sample meal plans-- menus, food lists, recipes-- were developed to meet dietary standards at the food stamp allotment cost level for a family of four and, with few exceptions, found acceptable by a panel of households receiving food stamps.

-- Levels of absorbable iron in the food intake of men, women and children of different ages were published.

-- Manual and computerized systems and data bases were developed for use by school food service organziations nationwide to determine whether school lunches meet a nutrient standard of one-third of RDA.

Nutrient guidance and education:

-- Several extramural studies of relative economies of scale in buying and using food by households of different sizes and sex-age composition were used in developing family food plans.

-- Food-shopping expertise of households with different economic characteristics was measured.

-- Completion of evaluations of certain nutrition and food guidance material used by household food managers.

FY 1982 - 1983 ACCOMPLISHMENTS

Question: What are some examples of research, analysis, and technical assistance the Service has provided?

Answer: Over 80 publications and reports presented HNIS research findings and interpreted them for various audiences. Also, staff presented over 30 papers at professional meetings.
For example:

Research results

-- Two revised sections of "Composition of Foods," Agriculture Handbook No.8, AH-8--Breakfast Cereals, 160 items, and Fruits and Fruit Juices, 283 items--were published. Also, a bulletin on the iron content of foods was published.

-- Five preliminary reports and five major statistical handbooks from the Nationwide Food Consumption Survey 1977-78, NFCS, were published. Information includes food and nutrient intakes of men, women, and children of different ages. Also of importance to educators is the publication "Food Commonly Eaten by Individuals," which reports the amounts-- portion sizes-- of each of about 200 foods eaten per day and per eating occasion by individuals by sex and age.

-- Publications for educators and consumers, such as "Family Food Budgeting," "Your Money's Worth in Foods," and "Poultry in Family Meals," were updated.

-- Family food plans at four cost levels were revised using NFCS data and dietary standards based on the 1980 RDA. The cost of food at home for food plans at four cost levels was estimated for families of different sizes and sex-age composition and released monthly.

-- Sample meal plans developed by HNIS for low-income households were released in a series of regional community workshops, "Making Food Dollars Count." This is an interagency effort among HNIS, Food and Nutrition Service, Extension Service and Office of Information.

-- A study was conducted to document the dietary changes necessary for different age groups of men, women and children in low-income households in order to meet specific nutritional goals.

-- Effects of several factors relating to household food use and dietary levels and to individual food and nutrient intakes were measured: Participation in food assistance programs, use of "convenience" foods, food eaten away from home, and meal patterns. Most of these studies, which help educators understand variation in food consumption among households and individuals, are continuing in FY 1983. A published study of food usage showed differences by demographic variables.

Technical assistance:

-- Manuals for instructors and participants in an American Red Cross, ARC, Nutrition Course were drafted by HNIS and ARC with technical assistance from Virginia Polytechnic Institute and State Univeristy.

-- "Sodium: Think about It" provided information about sodium for consumers. This was a cooperative effort with USDA's Food Safety and Inspection Service and DHHS' Food and Drug Administration.

-- A nationwide video-teleconference for nutrition and health professionals presented new research findings in nutrition as they relate to maternal and infant health. USDA and DHHS were cosponsors of the teleconference.

-- A annotated bibliography of educational materials was published to help staff in the Special Supplemental Program for Women, Infants, and Children and the Commodity Supplemental Food Program in selecting, acquiring, and developing nutrition education materials for program participants.

-- A bibliography of materials developed by States in the Nutrition Education and Training Programs was collected by HNIS and is being published to help States select, acquire, and develop nutrition education materials for use in schools.

NUTRITION EDUCATION AND TRAINING

Question: The Administration is again this year requesting no funds for Nutrition Education and Training (NET). What, if any, effect will that proposed program elimination have on HNIS? Will you be taking on work previously done under the NET program?

Answer; HNIS would not directly be taking on work previously done under the NET program. The Food and Nutrition Information Center, FNIC, is the national repository for NET-developed educational materials. A bibliography listing the NET materials in the FNIC collection is currently being compiled for publication this spring. FNIC lends NET materials as well as other educational materials to persons involved in the NET program nationwide.

INFORMATION AVAILABILITY

Question; As an information clearinghouse on human nutrition information, what materials do you have available to the public? Are these items free or are they purchased?

Answer; HNIS prepares technical information, in published and machine-readable forms, on the nutrient composition of foods and food consumption and dietary levels of U.S. households and individuals surveyed in our national studies. We also prepare some publications for the general public which present information on the selection, storage, and preparation of food in homes and institutions. Materials are for sale from the Superintendent of Documents or the National Technical Information Service.

Food and nutrition research results generated by HNIS staff are discussed with special audiences in professional meetings and journals, regional workshops, teleconferences, press releases, and radio and television shows.

Technical and educational materials on food and nutrition prepared by others are collected and loaned to nutrition educators who request them. HNIS also maintains the nutrition portion of the Agriculture On Line Access, AGRICOLA, bibliographic data base.

INFORMATION AVAILABILITY

Question: Where, and how often, do you conduct workshops and seminars on nutrition guidance and education? What is the format of these programs, and who are the participants?

Answer: HNIS has participated in two types of workshops and seminars on nutrition guidance and education. In the past year and a half, two nationwide video-teleconferences and two conferences have been held. In addition, numerous seminars have been conducted primarily for staff and program development, to which nutritionists from other agencies were invited.

The first teleconference, entitled "Nutrition Research Update," was conducted for Extension Food and Nutrition Specialists in all 50 States. The second teleconference, entitled "Improving Nutrition for Mothers and Babies: A Research Update," was conducted jointly by USDA and DHHS. The audience, estimated at 10,000 at 123 sites in 50 States, included WIC nutritionists, Extension nutritionists, dietitians, and physicians and nurses who deliver health services to pregnant women and infants.

Of the two conferences, the first was an Evaluation Planning Conference held with the American National Red Cross for discussion of the evaluation plan developed for the USDA-American Red Cross nutrition course. The second was the USDA-National Dairy Council Conference on Nutrition Education Research, "Strategies for Theory Building." This was jointly sponsored by the USDA and the National Dairy Council. The participants were leading nutrition education researchers representing Government academia, and the private sector.

SUBCOMMITTEE RECESS

Senator COCHRAN. Our next hearing of this subcommittee will be on Thursday, April 7, at 9:30 a.m., in this room. At that time we will hear witnesses from the Farmers Home Administration, the Federal Crop Insurance Corporation, the Office of Rural Development Policy, and the Rural Electrification Administration. Until then, the committee stands in recess.

[Whereupon, at 11:10 a.m., Thursday, April 5, 1983, the subcommittee was recessed, to reconvene Thursday, April 7, 9:30 a.m.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

THURSDAY, APRIL 7, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:35 a.m. in room SD–138, Dirksen Senate Office Building, Hon. Thad Cochran, (chairman) presiding.

Present: Senators Cochran, McClure, Andrews, and Burdick.

DEPARTMENT OF AGRICULTURE

FARMERS HOME ADMINISTRATION

STATEMENTS OF:

- FRANK W. NAYLOR, JR., UNDER SECRETARY FOR SMALL COMMUNITY AND RURAL DEVELOPMENT
- CHARLES W. SHUMAN, ADMINISTRATOR, FARMERS HOME ADMINISTRATION

ACCOMPANIED BY:

- MICHAEL E. BRUNNER, ASSOCIATE ADMINISTRATOR
- NEIL SOX JOHNSON, DEPUTY ADMINISTRATOR, PROGRAM OPERATIONS
- CHARLES A. JEWELL, DEPUTY ADMINISTRATOR, FINANCIAL AND ADMINISTRATIVE OPERATIONS
- JAMES C. ANDERSON, DIRECTOR, BUDGET DIVISION
- JAMES V. LOUGHRAN, ASSISTANT GENERAL COUNSEL, COMMUNITY DEVELOPMENT DIVISION, OFFICE OF THE GENERAL COUNSEL
- ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

CHAIRMAN'S OPENING STATEMENT

Senator COCHRAN. The subcommittee will please come to order.

This morning, we have at our hearing officials from the Farmers Home Administration, the Office of Rural Development Policy, the Rural Electrification Administration and the Federal Crop Insurance Corporation, all of which come under the direction and supervision of the Under Secretary for Small Community and Rural Development.

We are operating this morning with one panel, but we will take one agency at a time for remarks and questions. We welcome to the subcommittee as the Administration's lead witness, Under Secretary Frank

Naylor, who is accompanied by Charles Shuman, Administrator of the Farmers Home Administration; Bill Phillips, Director of the Office of Rural Development Policy; Harold Hunter, Administrator of the Rural Electrification Administration; Merritt Sprague, Manager of the Federal Crop Insurance Corporation; and the Department's Deputy Budget Officer, Bob Sherman. We appreciate very much your being here.

Mr. Secretary, before we begin with the agencies on an individual basis, we invite you to make any remarks or comments that you may have. You may proceed at this point.

Mr. NAYLOR. Thank you.

As always, it is a pleasure to have the opportunity to appear and work with you before your committee. Because of the scope of the budgets which we intend to cover this morning, I will, with your concurrence, forego a statement and turn to our individual Administrators, so we can give them and you the maximum time possible to cover the areas which are the most important. We think we have a responsible budget and a sound budget to work with in 1984. We look forward to working with you on it and hope that the committee will concur in the prudence and strength of the budget which we are offering.

Senator COCHRAN. Thank you very much, Mr. Secretary.

We welcome Mr. Shuman, Administrator of the Farmers Home Administration. Farmers Home administers a wide range of loan and grant programs which support agriculture, rural housing, and rural community development. These programs are vital to millions of rural Americans who depend upon Farmers Home as a lender of last resort or as a provider of grant funds for basic development projects.

The President's budget request for the next fiscal year calls for a $3.1 billion reduction in loan levels for Farmers Home, most of it in the housing area. An $850 million block grant program is being proposed in place of the housing loan programs. While farm ownership loan levels are being reduced, I am pleased to see that farm operating loan levels are slated for an increase of $350 million. Water and sewer facility loans are scheduled for a sizable reduction, and the business and industrial loan program is proposed to be eliminated.

Additionally, Farmers Home Administration grant programs are being reduced in the President's budget by over $65 million.

All of these programs are of special concern to the committee, especially because of their importance to rural America.

Salaries and expenses funding for Farmers Home for the next fiscal year is being requested at a level of $318.4 million, an increase of $19.4 million, including a pay supplemental.

PREPARED STATEMENT

We have a prepared statement from Mr. Shuman, and we will make it a part of the record. We invite you to make any further remarks or highlight parts of that statement for the committee. You may proceed at this point, Mr. Shuman.

[The statement of Mr. Shuman and a brief history of the FmHA follow:]

STATEMENT OF CHARLES W. SHUMAN

Mr. Chairman and Members of the Committee, I appreciate the opportunity to be with you today to discuss the budget request of the Farmers Home Administration for fiscal year 1984. I will briefly highlight the major points in the Budget and then be prepared to discuss in detail any specific parts that you wish.

As of the end of fiscal year 1982, the Farmers Home Administration had 1.9 million active loans carrying a total loan volume of about $59 billion in insured and guaranteed loans. We expect that this portfolio will increase to over $63 billion by the end of the current fiscal year.

As we enter the third year of this Administration, we do so with the clear and firm commitment of limiting the role of the Federal Government in the daily lives of our people. We are going through a period of some economic uncertainties, but the outlook is positive, and those uncertainties are beginning to evolve into positive trends for individual Americans and the country.

Farm Credit Situation

It has not been an easy year for many in the farming community. This year will be difficult for some. However, I can tell you that we at the Farmers Home Administration have provided and will continue to provide credit to farmers and other rural residents who are unable to obtain sufficient financing elsewhere at rates they can afford.

Our policy for the past year has been to stay with a farm borrower who has made good faith efforts to repay a Farmers Home loan, but who could not because of circumstances beyond his or her control; who practices good farm management; who took adequate care of any secured property; and who showed promise of success if a new operating loan were made.

We think we were successful. More than 97 percent of the 270,000 farmers who began the year with us made it through the year.

This year, we are following the same policy and are willing to carry a farm borrower as delinquent if it appears a new operating loan and the interest on outstanding debt can be repaid from this year's production. Also, on a case-by-case basis, we are exercising the authority given us to defer, reschedule or reamortize loans where the need is evident and the promise of eventual success is strong.

Let me add that the private lending industry is cooperating in an excellent manner in serving farmers who have borrowed from Farmers Home in recent years. Last fiscal year, we enabled private lenders to make almost 30,000 such loans by subordinating Farmers Home liens on property of the borrowers. The number of subordinations was more than five times that of the previous year.

One of the most encouraging signs for this year is the reduction in interest rates that has been made possible by the successful attack on inflation. These rates were reduced for the third time since last fall. A farmer obtaining a $100,000 operating loan this spring at 10.25 percent will pay $4,000 a year less in interest than a year ago.

Mr. Chairman, I believe we have made real progress in trying to meet the needs of our borrowers. The 1984 Budget will enable us to continue that progress.

Budget Highlights

For fiscal year 1984, we are requesting a program budget of just over $5.7 billion. This reflects two major emphases: increased operating loans in keeping with the President's commitment to help meet the most crucial farm needs and a restructuring of certain housing programs in accordance with the objectives of the New Federalism program. The budget does not include funds for several of the smaller limited purpose programs.

We are still guided by the principle that adequate income from farming--with the least possible interference by the Government--is the primary goal of the Department of Agriculture.

For all farm programs, the budget includes a little over $4 billion with the principal focus on farm operating credit which receives a significant increase over previous levels. We believe these amounts, coupled with the increased participation of private credit markets, will be sufficient to meet the production loan needs of our farmers. We are also requesting a strong farm real estate loan program that appears adequate and realistic based on last year's experience and the current farm real estate situation.

For the rural housing program, the Budget contains just over $1.2 billion for a reordered approach which would provide to States the opportunity and the resources to manage their own needs for housing development and eliminate some of the duplication which now exists. This is a cornerstone of the New Federalism policy.

The Rural Housing Insurance Fund would require loan levels of $300 million to meet the needs of its programs in fiscal year 1984. An additional $850 million would be provided for block grants to the States to provide for subsidized rural housing as the States define their own needs. Another $62 million would provide for renewal of rural rental assistance contracts.

The budget estimate for community programs is $440 million. This is somewhat below the current appropriation, but it is consistent with the return of decision-making responsibility to more local levels of government concerning their needs. This budget request should be adequate to supplement State and local efforts and to assist the poorest communities obtain basic community services.

We propose to terminate the guaranteed business and industry loan program and the guaranteed alcohol production facility loan program. These are programs that no longer need government participation, and whatever loan needs exist can best be met by private investors.

The request for Salaries and Expenses includes an increase of about $20 million to provide staff to protect the Government investment in the Agency's portfolio through increased servicing, debt collection and credit counseling of its borrowers. As Administrator, one of my major goals was to provide sufficient staffing at the local level to assure the proper supervision needed to strengthen the economic position of our borrowers.

This increase in staffing along with administrative changes within the Agency will provide an additional 899 staff-years in the county offices over the 1982 level.

Mr. Chairman, this concludes the general overview. I will now turn to the specifics of our budget request.

FARMER PROGRAMS

The 1984 Budget proposes a finely tuned Farmers Home Administration program of assistance. However, the mainline programs needed to provide a backup source of credit to farm producers who cannot obtain credit elsewhere remain strong. This includes the resources to allow young and beginning farmers to establish farming operations and, through counseling, to build strong viable operations.

The overall Federal loan program dollar level needed to achieve these objectives in fiscal year 1984 will be reduced somewhat compared to the previous years through the institution of an expanded nationwide crop insurance program which will be available over a substantially wider range of farm acreage and increased cooperation with the private credit market.

Agricultural Credit Insurance Fund

Farmer programs are funded through the Agricultural Credit Insurance Fund. The 1984 Budget requests loan authorizations of $4.1 billion.

Farm Operating Loans

Farm operating loans provide for the purchase of supplies, equipment and livestock and for the refinancing of debt and other miscellaneous purposes. The farm operating loan level is estimated at about $1.5 billion for 1983 and over $1.8 billion for 1984. This is a substantial increase in program level over the last several years.

The increase is requested to meet the real demand for operating credit which, in the last few years, has been met through the heavy emergency disaster loan program. We feel that raising of the basic farm operating loan program to a higher level may substantially alleviate the crises planning cycle of the past few years and provide for a more stable and reliable farm sector output in the next decade. Farm operating loans would be the primary source of Farmers Home Administration credit for meeting annual operating expenses. In 1984, we will continue our efforts to provide credit primarily to those most in need. This will enable us to extend a reasonable level of credit to the smallest family farms as well as young and beginning farmers. More effective graduation reviews will be conducted and counseling and servicing of borrowers will be improved with the aim of helping the borrowers move to normal private sources of credit as their farm operations develop.

The Budget also reflects proposed legislative action to reduce the interest subsidies on operating loans to limited resource borrowers. All borrowers would be charged interest at a rate equivalent to the cost-of-money. The interest rate for guaranteed loans is negotiated by the lender and the borrower. These guaranteed loans are aimed at further facilitating the involvement of the private sector.

Farm Real Estate Loans

The requested level for farm real estate loans is $680 million for fiscal year 1984. The primary insured farm real estate loan program is the farm ownership loan program. The 1984 Budget includes $600 million for insured farm ownership loans and $50 million for guaranteed loans.

We believe this funding level will be adequate to meet the needs of those applicants most in need of Federal support to establish viable operations in today's agricultural market climate. Emphasis will be placed on the quality of the proposed loans with an eye to the rapid development of borrowers into strong and viable agricultural producers.

Under legislation being proposed, all borrowers will be charged not more than the cost-of-money interest rate for insured loans and the interest rate on guaranteed loans will be negotiated between the borrower and lender.

The Budget proposed $26 million for individual soil and water loans, and $4 million for Indian tribe land acquisition loans.

Emergency Disaster Loans

About $17 billion has been loaned in the emergency disaster program since 1977. A program level of $2.0 billion is reflected in the budget for 1983 and $1.54 billion for 1984. Several improvements have been made in the program in recent years such as tightening of eligibility and entitlement criteria, greater availability of Federally-sponsored comprehensive crop insurance and increased subordination activity. A proposed legislative change will restrict emergency disaster loans in areas where Federal Crop Insurance is generally available.

Replenishment of Agricultural Credit Insurance Fund

An appropriation of $895.5 million is requested to reimburse the Agricultural Credit Insurance Fund for interest subsidies and losses incurred during fiscal year 1982. The principal element of this reimbursement is the amount by which the interest expenses paid by the Agency exceeded interest income accruing from our outstanding loans.

Many of our outstanding loans made from this Fund accrue interest at rates in effect since 1954, rates which are substantially below recent years' cost of money.

COMMUNITY PROGRAMS

Community programs provide residents in rural communities with basic amenities, alleviate health hazards, improve the quality of rural living, and contribute to orderly economic and social development. Loans for these purposes are funded through the Rural Development Insurance Fund.

Rural Development Insurance Fund

The 1984 Budget request for community loan programs under the Rural Development Insurance Fund is $350 million.

Community Facility Loans

Loans are currently made to public bodies and nonprofit organizations and corporations in rural areas including cities and towns of not more than 20,000 population. These loans finance projects involving fire and rescue services, health and medical care, hydroelectric generation, and community, social and cultural benefits. We are requesting $100 million for community facility loans.

The Omnibus Reconciliation Act of 1981, Public Law 97-35, adjusted the income rate charged borrowers in this program from its previous statutory level of 5 percent to a rate which would reflect the municipal bond market for instruments of similar terms. However, reduced interest rates are available to low-income communities.

Water and Waste Disposal Loans

For water and waste disposal system loans, we are requesting $250 million. New interest rates were set in this program similar to the community facility loan program by the Omnibus Reconciliation Act of 1981.

In order to make maximum use of these funds, and to best serve those most in need, priority consideration will be given to those projects which will enlarge, extend or otherwise modify existing facilities to provide service to additional rural residents.

Business and Industrial Loans and Alcohol Production Facility Loans

We propose termination of the guaranteed business and industrial loan program. Termination of this program is consistent with the plan to return Farmers Home to its original role of lender of last resort, primarily in the area of farm credit.

Replenishment of Rural Development Insurance Fund

An appropriation of $477.8 million is requested to reimburse the Rural Development Insurance Fund for interest subsidies and losses incurred during fiscal year 1982.

Other Community Programs

We are requesting $90 million for water and waste disposal system grants to complement the loan program in 1984.

HOUSING PROGRAMS

For fiscal year 1984, we are proposing authorizing legislation and an appropriation of $850 million to establish a new rural housing block grant program. The block grants would be made directly to the States to provide assistance for acquisition, construction, improvement, alteration, repair of or conversion of structures for single family dwellings and rental housing; to refinance indebtedness which was incurred for such purposes;

and to provide for temporary housing costs to persons of low income. Such assistance by the States might be in the form of grants or low-interest rate loans.

We envision that the block grants will become the principal Federal mechanism for promoting the development of housing in rural areas. As a result, our current rural housing loan programs are proposed for substantial reduction in 1984 to those levels we believe adequate to service the existing loan portfolio and meet the needs of a limited number of hardship cases.

Our current housing programs will continue to be financed mainly through the Rural Housing Insurance Fund. The 1984 loan authorization request is for $300 million. Most of these funds will be used to service existing borrowers.

Section 504 Very Low-Income Housing Repair Program

The loan authorization request for Section 504 home repair loans for 1984 is $1 million. While the program funding level has been reduced substantially for fiscal year 1984, we expect that the rural housing block grant program can provide ample funding for the repair and rehabilitation of housing in rural areas. Loans will be made to service the existing portfolio by assisting very low-income elderly families with the greatest need to improve their dwellings to make them safe and sanitary and to remove health hazards.

Rural Rental Assistance

The 1984 Budget provides for the timely renewal of rental assistance agreements covering 6,000 units under our rural rental assistance program. The appropriation request is for $62 million. This represents the total cost of the 6,000 unit renewal for rental assistance payments over the life of the agreements.

During 1984, the amount requested will be used to renew expiring rental agreements for a period of five years and will not provide for assistance to additional units under the program.

The rental assistance program is currently funded from the Rural

Housing Insurance Fund. The 1984 Budget proposes a separate fund for this activity so that its costs can be more adequately identified, and to remove this deep subsidy program from the loan revolving account where inclusion of this type of activity is not entirely appropriate.

Replenishment of the Rural Housing Insurance Fund

An appropriation of $1.5 billion is requested to reimburse the Rural Housing Insurance Fund for interest subsidies and losses during fiscal year 1982. The principal element of this reimbursement is the amount by which interest cost incurred by the Farmers Home Administration exceeded interest income derived from the Agency's portfolio of rural housing loans which, to a large extent, bear effective interest rates that represent subsidized rates in today's market.

Other Rural Housing Programs

The Budget also includes a program level request of $12.5 million for rural housing domestic farm labor grants. These grants are used to subsidize the construction cost of farm labor housing so that rental rates can be held at a level that low-income farmworkers can afford.

SALARIES AND EXPENSES

The 1984 appropriation request for Salaries and Expenses is $318 million. This is about $20 million above the adjusted appropriation estimated for 1983. The 1984 request includes an increase of $18,952,000 to cover 630 staff-years previously financed from the Agricultural Credit Insurance Fund and for an additional 186 staff-years.
These additional staff-year resources are required primarily for loan servicing, debt collection and credit counseling at the county office level.

The Farmers Home Administration requires this higher staffing level to protect the Government interest in its loans and to provide credit counseling and assistance to its borrowers. The Agency's portfolio of loans has increased dramatically, nearly 25 percent, during the past three years. The Federal Government's vulnerability, i.e., its risk with respect to potential loss, particularly in farm programs, makes it necessary that a more concentrated servicing effort be implemented immediately.

The increased requested also includes $2,304,000 for the portion of pay increases absorbed in 1983, but required in 1984 to carry out program responsibilities.

Also included is an increase of $2,082,000 for travel expenses in field offices related to the additional staff and the increased efforts in loan servicing and credit counseling. These additional funds will enable our field staff to intensify loan servicing and borrower counseling activities needed to help assure the success of farm operators and to more adequately secure the Government's investment. The Budget also includes decreases of $3,195,000 due to non-recurring contract costs, $412,000 in equipment and $63,000 in transportation of things.

Mr. Chairman, this concludes my prepared testimony. I have a brief history of FmHA complete with charts and statistics which may be helpful to insert in the record. I appreciate the opportunity to discuss the performance of FmHA in meeting the needs of farmers and other rural Americans. Thank you very much.

BRIEF HISTORY OF FARMERS HOME ADMINISTRATION

Farmers Home Administration (FmHA) is the credit agency for agriculture and rural development in the United States Department of Agriculture. Its history of financial and technical assistance in rural America goes back 47 years. FmHA continues the mission of its predecessors in rural assistance, the Resettlement Administration and the Farm Security Administration.

Today, the agency serves a broader purpose than the 1930's singular effort to make loans to Depression-stricken farm families. As recently as 1960, FmHA was primarily concerned with its supervised credit program for low-income farmers.

FmHA continues to be a source of credit for building stronger family farms; in 1981, farm credit accounted for almost one-half of all resources administered by FmHA. Congress, during the 1960's and 1970's, added additional programs that benefit families and communities throughout the rural population, helping to provide safe, modest housing; modern, sanitary water and sewer systems; essential community facilities; and job/economy-boosting business and industry in rural areas.

In 1977, the Rural Development Service was merged into the Farmers Home Administration, giving the agency a rural development policy management capability. Later the agency was given significant new responsibilities to help implement the Small Community and Rural Development Policy Act of 1980. FmHA directed its resources to high-priority rural problems such as housing, health, transportation, water systems, communications, energy and economic development. Wherever possible, FmHA coordinated programs and funding with other Federal, State, and local agencies. In 1981, a separate Office of Rural Development Policy was established, which answers directly to the Under Secretary of Agriculture for Small Community and Rural Development.

A major advantage to rural people is the localized delivery system developed over the years by FmHA. Approximately 9,500 permanent full-time employees direct FmHA resources from 46 State offices, 293 district offices and almost 1,950 county offices serving every county or parish in the 50 States plus the Pacific Trust Territory, American Samoa, Guam, Puerto Rico, and the Virgin Islands. FmHA's close one-on-one relationship with its borrowers is unique in the Federal Government.

FmHA's existing system of personal contact across the country has established it as the "lead" agency for rural development. Congress and the Administration continually recognize FmHA's long experience in serving rural communities and farm families and have over the years expanded old and created new services.

FmHA loans and grants supplement the amount of credit and capital directly available from commercial lenders in rural areas. In most programs, the agency makes loans to qualified applicants who can find no other sources of financing available on terms or conditions they can meet.

The money loaned by FmHA comes from collections on previous loans, or from private investors through sale of Government securities. In guaranteed loan making, funds are supplied directly to borrowers by commercial lenders, with FmHA minimizing the lender's risk.

Grants for rural water and waste disposal systems, farm labor housing, home repair for low-income elderly, and "self-help" homebuilding by low-income families supplement the agency's rural lending program.

RESETTLEMENT ADMINISTRATION

The lineage of FmHA goes back to the Resettlement Administration, which was established as an independent agency in 1935 and formally assigned to the Department of Agriculture in January 1937.

The programs of the Resettlement Administration offered a number of approaches to solving the problems of poor people and poor land. The most popular was the supervised loan program. Supervised loans were part of a Governmentwide effort to help needy rural people reestablish themselves on a self-supporting basis.

During its 2-year operation, the Resettlement Administration made more than 300,000 short-term loans, often supplemented by grants to low-income families. Each loan was based on a farm and home management plan worked out by county, farm, and home supervisors in cooperation with the borrowing family. The plans were designed to ensure the use of good farming practices and to fit the needs of the families taking part in the program.

By 1937, there was a growing conviction in USDA and in Congress that supervised credit as pioneered by the Resettlement Administration was the answer to a worsening national problem of hardship and failures among tenant farmers. On July 22, 1937, the Bankhead-Jones Farm Tenant Act was passed.

The Resettlement Administration was given the responsibility for the new program of supervised farm ownership loans with 40-year terms for farmers who lacked other sources of credit for buying their own land and for farm and home improvement.

Also enacted in 1937 was the Water Facilities Act to provide loans for individual and association farm water systems in 17 western States where drought and water shortage were familiar hardships. The Resettlement Administration shared servicing responsibilities of the program with the Soil Conservation Service and the Bureau of Agricultural Economics. This act was the forerunner of the rural water programs now administered by FmHA.

FARM SECURITY ADMINISTRATION

As administrative actions were taken to carry out the Farm Tenant Act, on September 1, 1937, the Resettlement Administration was renamed the Farm Security Administration (FSA).

For the ensuing 9 years, FSA carried on supervised credit programs with farm and home counseling by county office staff. The success of a large percentage of these borrowers helped strengthen family farm agriculture and helped the Nation meet its awesome food-producing challenges in World War II. By 1941, the FSA had made more than 13,000 loans to tenant families for the purchase of farms.

In 1942, FSA was given full responsibility for the water facilities program in the 17 western States.

FARMERS HOME ADMINISTRATION

By 1946, it was generally conceded both in and out of Congress and within the agency itself that a restructuring of FSA was necessary, that some old Resettlement programs were no longer justified; others could be improved and new programs would be needed in the postwar period.

Accordingly, in August 1946, Congress passed the Farmers Home Administration Act. This measure, which took effect in 1947, reconstituted FSA under the new name Farmers Home Administration.

Until 1974, Farmers Home Administration was commonly referred to as "FHA," and often confused with other agencies with the same initials, including the Federal Housing Administration and Federal Highway Administration. In April 1974, USDA formally adopted "FmHA" as the agency's distinguishing acronym.

Combined in the new FmHA were some programs of FSA and the emergency crop and feed loan program. The latter, a service in short-term loans (for feed, seed, and fertilizer) to farmers in designated hardship areas, had been originated through USDA in 1918, and carried on during 1933-46 through Production Credit Associations of the Farm Credit Administration's agricultural credit system.

The Farmers Home Administration Act also gave FmHA new authority to insure loans made by banks, other agencies, and private individuals, as well as to make direct Government loans. The act brought an end to rural rehabilitation loans, of which over 3 million had been made since 1935 by the Resettlement and Farm Security Administrations. They totaled over $1 billion.

In its first 3 years, FmHA confined its operations to development of supervised farm ownership and farm operating loan programs, and to water facilities projects in the 17 western States.

EXPANSION OF FmHA SERVICES

The first of many additions to FmHA's portfolio of services, all made available to rural people through the well-established system of FmHA county offices, came in 1949. These are highlights of the Congressional acts (1949 through 1981) that have molded FmHA's wide variety of services.

The Federal Housing Act of 1949 gave FmHA authority to make housing loans to farmers as a part of the national housing program. The Disaster Loan Act of 1949 originated the special emergency farm loan for recovery from losses inflicted by natural disaster.

The Water Facilities Act was amended in 1954 to apply nationwide, rather than limited to the 17 western States, and to let farm area water systems take on nonfarm customers in rural communities.

Rural development was given Federal program status by USDA administrative action in 1955. FmHA's first involvement was a pilot program of loans to small farmers who could not qualify for regular FmHA loans.

In 1959, FmHA began to make loans to local organizations covering the local share of cost in small watershed projects under Public Law 566.

Major overhauling and expansion of FmHA authorities came with passage of the Consolidated Farmers Home Administration Act of 1961. Its principal provisions were the following:

* Raised limits on farmer loans to $60,000 for farm ownership, replacing a formula whereby each county's limit had been the average value of its family farms and from $20,000 to $35,000 for farm operating purposes.

* Opened up the water system program to general rural population, including incorporated towns of up to 2,500. The loan limit on a project (previously $250,000) was raised to $500,000 for a direct FmHA loan and to $1 million for an insured loan.

Also in 1961, the Federal Housing Act was amended to make nonfarm rural residents eligible for FmHA's direct housing loans. This new jurisdiction in rural housing extended to towns of up to 2,500 population.

Still more expansion of FmHA services came in 1962. The Senior Citizens Housing Act set up loans for low-rent apartment projects designed to meet the needs of people age 62 and over. This type housing was acutely lacking in rural communities.

Amendments to the Farmers Home Administration Act authorized loans for a shift in land use to outdoor recreational facilities built primarily to benefit rural people. The agency began to make loans to family farmers to set up farm-based recreation and other nonagricultural enterprises that would add to family income, and for association grazing ranges where family farmers and ranchers share the use of more grazing land for livestock production.

A pilot program for rural renewal, delegated to FmHA, launched experiments in several States to develop better community facilities, improve homesites and housing, and to attract new industry to underdeveloped rural areas. Rural renewal was discontinued as an experimental program in 1969.

FmHA also was authorized in 1962 to make loans covering local project costs in areas designated for benefits of a resource, conservation, and development program which, like the small watershed program, is supervised by USDA's Soil Conservation Service.

The Economic Opportunity Act of 1964 established loans to low-income rural people for small farm improvements or nonfarm enterprises that would add to family income. FmHA performed the lending through its county offices with funds provided by the Office of Economic Opportunity until 1971. The agency made nearly 65,000 loans totaling $109.3 million to individuals and 1,476 loans totaling $21 million to cooperatives.

EXPANSION OF PROGRAMS TO PRESENT LEVELS

The expansion of old programs and enactment of new ones during the first 4 years of the 1960's raised FmHA's total loan and grant volume from the $300 million level of fiscal year 1960 to $750 million in fiscal year 1965.

Rural housing was changed from a program of direct loans to one primarily of insured loans, and the population limit on towns served through FmHA was raised from 2,500 to 5,500. This opened the way for the greatly increased housing services for rural people.

In 1966, senior citizens and younger low-income families became eligible for FmHA rural housing loans or tenancy in rural rental housing.

In 1968, an overhauling of the Housing Act of 1949 established the interest-supplement housing loan program. It enabled some low-income families to pay as little as 1 percent interest and provided for subsidized loans to developers of low-priced rental housing for low-income families and senior citizens. New programs also were enacted in 1968 for rural homesite development loans and for grants toward support of "self-help" homebuilding group projects. Grants of up to 90 percent, as well as loans, were authorized for farm labor housing projects.

The Housing Act of 1970 raised the population limit to 10,000 for a rural community where FmHA housing loans may be made.

In 1965, the water facilities loan program was transformed into a loan-and-grant program for both water and waste disposal systems.

Rural towns of up to 5,500 were made eligible to be included in FmHA-financed projects, and the limit on FmHA financing of a project was raised to $4 million.

In 1968, Congress abolished a statutory annual ceiling of $450 million on FmHA insured loan authority for farm ownership and community facilities combined, and raised the national total authorization for water-waste disposal grants from $50 million to $100 million a year. In 1970, legislation was passed to remove technical barriers to the use of investors' FmHA-insured funds, rather than direct appropriated funds, for loans to tax-exempt public bodies such as municipalities and public service districts. That year marked the beginning of a period of rapid growth and increased service to small towns.

In farm credit programs, the agency took action in 1970 to increase its cooperation with other lenders in jointly serving farm borrowers, with FmHA taking a second lien when the same security is mortgaged both for the FmHA and other lenders' loans. In 1971, the limit on a farm ownership loan secured by a mortgage on real estate was raised from $60,000 to $100,000.

The Rural Development Act of 1972, enacted August 20, 1972, gave USDA primary responsibility for Federal activities in support of rural development. It established the position of Assistant Secretary for Rural Development to coordinate this effort through the programs and expertise of FmHA, Rural Electrification Administration (REA), and the Rural Development Service (RDS). In 1977, RDS was merged with FmHA and in 1981 it was elevated to the Office of Rural Development Policy.

In its other principal provisions affecting FmHA, the act--

* Authorized FmHA to guarantee loans made by commercial lenders for farming, housing, and rural business and industry, including enterprises in cities of up to 50,000 population.

* Abolished the limit of $4 million per project on FmHA financing of water and waste disposal systems, increased the national grant authorization for water and waste disposal to $300 million a year, and raised the population limit on towns included in FmHA-financed systems to 10,000.

* Authorized FmHA loans for other kinds of essential community facilities such as fire departments, community halls, hospitals, nursing homes, and public recreation facilities.

* Authorized FmHA grants to improve rural industrial sites.

* Authorized area assistance planning grants.

* Authorized FmHA to make investor-funded insured loans for farm operating purposes, and raised the limit on a farm operating loan from $35,000 to $50,000.

- Authorized youth loans to rural young people under age 21 for farm or nonfarm income-producing enterprises supervised through schools or organizations, such as in 4-H Club and Future Farmers of America programs.

- Set $225,000 as the maximum permissible debt against farm property on which FmHA and a cooperating lender may simultaneously hold liens. This enabled FmHA to participate in larger loans up to its limit of $100,000 to family farmers and ranchers.

The emergency loan program to help farmers recover from natural disaster underwent a short-lived expansion in 1972. An act of Congress, stimulated by the Hurricane Agnes disaster in northeastern States, liberalized emergency loan terms nationwide and decreed nonrepayment of the first $5,000 to cover actual loss. After the cost mounted to about $550 million within a few months, the program was suspended and Congress in 1973 returned emergency loans to a fully repayable basis. Legislation in 1975 established separate categories of disaster emergency loans to cover losses and to finance resumption of farm production operations. Under the Small Business Development Act of 1980, FmHA was given authority to make unsubsidized emergency loans to farmers who are able to get credit from commercial lenders. The law limits loans to these creditworthy borrowers for actual loss only.

A special Emergency Livestock Credit Act for FmHA guarantee of commercial lenders' loans to livestock and poultry producers in financial distress was enacted July 25, 1974. The program expired September 30, 1979. Under terms of the program, FmHA guaranteed a maximum $350,000 worth of commercial credit for an eligible borrower. Loan guarantees totaling $1.5 billion of principal outstanding were authorized. About $1 billion of this credit was used by farmers and lenders.

Under amendment of the National Housing Act, passed in 1974, FmHA in 1976 introduced its housing loans into towns of 10,000 to 20,000 population that are outside Standard Metropolitan Statistical Areas (SMSA's) and certified by the Secretaries of Agriculture and Housing & Urban Development (HUD) to be lacking in mortgage money from other sources. Later in 1976, Congress revised the criteria for serving the larger non-SMSA communities by specifying that consideration be based on shortage of mortgage loan funds for families of low and moderate income. Housing Act amendments of 1974 also authorized extension of FmHA housing loan services to U.S. island territories, including trust territories in the Pacific, (service was initiated on Guam in 1976 and other islands in 1977), and eventual lending on mobile homes and condominium housing (not implemented as of 1982).

The guarantee of commercial lenders' housing loans to families of moderate income was implemented in January 1977 under authorities provided in the Housing and Rural Development Acts. However, under the Housing Act Amendment of 1977, guarantee of housing loans was limited to the service of families with above moderate income. In 1977, FmHA also implemented grants to senior citizens with very low income for repair of badly deficient houses, and an authority under housing legislation of 1974 to provide rental assistance supplementing rent paid by low-income tenants of FmHA-financed rental housing.

The Agricultural Credit Act, enacted August 4, 1978, substantially changed the farm programs of FmHA and added a new program of economic emergency loans. The new program authorized FmHA to make or guarantee loans of up to $400,000 to farmers or ranchers hard pressed by shortages of credit from regular sources or by a cost-price squeeze. The agency is authorized to carry a maximum of $6 billion in economic emergency loans at any one time. The loans can be used to refinance certain outstanding debts, reorganize the farming operation, and pay other operating expenses. However, funds cannot be used to expand farming operations. Although the 1978 Act set May 15, 1980, as a date of expiration for the economic emergency loan program, the Agriculture and Food Act of 1981 extended authority for the program until September 30, 1982.

The 1978 Agriculture Credit Act also made changes in existing programs --

* Expanded eligibility for farm loans to family corporations, cooperatives, and partnerships, as well as individuals.

* Increased loan limits to $200,000 for insured and $300,000 for guaranteed farm real estate loans and to $100,000 for insured and $200,000 for guaranteed farm operating loans.

* The interest rate for farm ownership loans was changed to be based on cost of borrowing to the Government. Special interest rates on ownership and operating loans were made available for limited-resource farmers.

* The interest rate for actual losses under disaster emergency loans also was set at 5 percent.

* The maximum allowable grant for water and waste disposal projects was increased from 50 percent to 75 percent.

* Revoked the requirement that the Department of Labor clear business and industrial loans less than $1 million and when employment is less than 50 people.

Powerplant and Industrial Fuel Use Act of 1978 (Section 601) provided energy impact assistance grants--sometimes called the "boomtown" program--to rural communities which faced problems of rapid growth due to new coal and uranium mining. Grants were available for planning as well as acquiring and developing sites for housing and public facilities. "Energy impacted areas" were designated by State governors and approved by the U.S. Department of Energy. By the end of 1981, approximately 400 grants had been awarded to communities within the designated 24 States. The program was not funded in the 1982 budget.

The Rural Development Policy Act of 1980 gave USDA a leadership role in coordinating a nationwide rural development program. Among other provisions, it created the position of Under Secretary of Agriculture for Small Community and Rural Development and increased FmHA's annual authorization for section 111 planning grants. The planning grants under section 111 had been authorized by the Rural Development Act of 1972. The grants were made to States, substate districts, local governments, and certain community-based organizations to encourage and help meet the cost of comprehensive planning in rural areas. Grants were used for planning a wide variety of services including water, sewer, housing, energy, and economic development. Through fiscal year 1981, the Federal Government funded 605 grants for a total of $19 million. The program was not included in the 1982 budget.

The Energy Security Act of 1980 was a $20 billion comprehensive synthetic fuel measure designed to spur the production of 500,000 barrels of synfuels daily by 1987 and two million barrels by 1992. Small-scale projects (less than 1 million gallons per year) with a loan amount of less than $1 million, and intermediate projects (over 1 million and less than 15 million gallons) became eligible for FmHA financing.

The Omnibus Budget Reconciliation Act of 1981, enacted on August 13, 1981, directed FmHA to select water, sewer, and community facility projects based on the percentage of low-income population to be served, severity of the threat to health, and size of the community. Priority was to go to the smallest communities.

AN UNDUPLICATED RURAL RESOURCE

FmHA programs operate as a supplement to credit made available by private lenders, not in competition with them, and as a helping hand to the capable and industrious family or community whose progress is blocked by lack of credit resources.

A family in need of farm financing, or a loan for an adequate home, may be of modest circumstances and lack credentials for conventional credit. A rural locality may be without a local lending institution, financial needs of the area may exceed the capacity of institutions that are there, or a rural community may not be able to qualify for financing through the conventional bond market.

In circumstances such as these, resources brought within reach through FmHA help to make up for shortages in local and private resources. As it lends money raised throughout the Nation from investors in Government securities or guarantees loans made by city banks and other commercial lenders, FmHA relays into the rural United States a flow of outside capital needed for farm, home, community and rural economic development.

Historically, the availability of credit through FmHA, when none other was to be found, has enabled hundreds of thousands of farm families to keep their foothold on the land, rather than abandon farming. More than 1.3 million ill-housed rural families have moved into adequate homes. Approximately 22,000 rural localities and farmland sections have solved their water and sanitation problems through modernized central water and sewer systems. These are benchmarks of rural progress toward which programs delivered through FmHA have made significant contributions.

The "supervised loan" principal adopted by the agency in its earliest years still is necessary to help borrowers achieve the purposes of their loans and to pay back what they have borrowed. Loan losses written off during the 47 years of the agency amount to less than 1 percent of principal advanced.

SOURCES OF INSURED LOAN FUNDS

FmHA loans classified as "insured" are made from three loan revolving funds. The oldest is the Agricultural Credit Insurance Fund (ACIF) established when FmHA began to make insured loans in the 1940's, and now the fund from which all farmer-program loans are made. The Rural Housing Insurance Fund (RHIF) was established with inauguration of insured rural housing loans in 1965. The Rural Development Insurance Fund (RDIF), established under the Rural Development Act of 1972, took over from ACIF the agency's lending for water, sewer and other community facilities, and for business and industrial development.

The revolving funds are nourished by the incoming flow of loan repayments, plus the sale of Certificates of Beneficial Ownership to the Federal Financing Bank.

Prior to 1974, investors received actual notes or other security instruments FmHA had taken from borrowers. The investor supplied to FmHA an amount equal to principal owed on the note and the agency guaranteed repayment of the investments with interest. As borrowers repaid loans, payments were made to investors and the value of the investment was reduced. Until 1970, with FmHA program levels requiring less than $1 billion a year of note marketing, sales were conducted directly from FmHA. From 1970 through 1973, as marketing requirements rose to more than $2 billion a year, the agency increased sales by marketing large blocks of notes to security dealers, who in turn sold them to trust funds and other large investors.

In 1974, FmHA discontinued the marketing of actual notes and introduced a new investment security instrument, the Certificate of Beneficial Ownership (CBO). CBO's are issued against pools of loan notes and signify that investors will share in interest earnings. Since 1977, FmHA has placed CBO's only with the Federal Financing Bank, an institution closely related to the Department of the Treasury, and has sold no CBO's to the public.

SUMMARY BY PROGRAM AREA

From the beginning of the Resettlement Administration in 1935 until the end of fiscal year 1982, a total of $109,119,578,456 was advanced or obligated in more than 9 million loans and grants made through FmHA and its predecessor agencies.

Program by program, the all-time totals as of September 30, 1982, are as shown on page 13.

FARMERS HOME ADMINISTRATION
Loans and Grants by Program -- All-Time Total
through September 30, 1982

FARMER PROGRAMS:	Number of Loans or Grants	Dollar Amount
Farm Operating Loans	2,324,410	$ 12,493,540,005
Farm Ownership Loans	377,308	9,431,497,628
Recreation Loans (Individual)	463	20,527,880
Emergency Loans	1,175,686	20,571,261,614
Economic Emergency Loans	121,000	6,628,618,280
Grazing Association Loans	605	129,419,696
Soil and Water Loans (Individual)	41,370	456,461,692
Irrigation and Drainage Loans	610	32,240,909
Indian Land Acquisition Loans	75	83,801,800
Farmer Programs, Total	4,041,527	$ 49,847,369,504
RURAL HOUSING PROGRAMS:		
Individual Housing Loans	1,722,923	$ 30,528,507,136
Very Low Income Repair Grants	43,474	101,544,077
Rural Rental Housing Loans	15,565	5,999,848,120
Rental Asst. Program:		
Rental Housing (90,100 Units)	-	1,873,248,746
Labor Housing (4,458 Units)	-	92,520,075
Farm Labor Housing Loans	1,530	166,326,660
Farm Labor Housing Grants	230	144,821,960
Site Loans	168	22,722,090
Self-Help Housing Grants	378	60,962,595
Rural Housing Supervisory Assistance Grants	57	5,000,000
Housing Programs, Total	1,784,298	$ 38,995,501,459
COMMUNITY PROGRAMS:		
Water and Waste Disposal Loans	24,647	$ 7,596,694,844
Water and Waste Disposal Grants	11,712	2,230,905,096
Community Facility Loans	4,193	1,822,991,970
Industrial Development Grants	1,367	83,549,279
Watershed and Flood Prevention Loans	482	172,552,524
Resource Conservation and Development Loans	283	27,675,409
Rural Development Planning Grants (ADA)	605	19,000,000
Development Grants Other than FmHA	1,882	279,761,615
Community Programs, Total	45,171	$ 12,251,130,737
BUSINESS & INDUSTRY PROGRAMS:		
Guaranteed Business/Industrial Loans	6,878	$ 5,407,870,914
Business/Industry Programs, Total	6,878	$ 5,407,870,914
DISCONTINUED PROGRAMS:		
Emergency Livestock Loans	7,738	$ 1,045,660,130
State Corporation Farm Operating Loans	185,904	158,964,394
Rural Rehabilitation Loans	3,031,331	1,015,825,965
Economic Opportunity Loans (indiv.)	64,660	109,394,912
Economic Opportunity Loans (assn.)	1,476	21,107,481
*Recreation Association Loans	1,035	110,510,460
Rural Renewal Loans	56	6,550,300
Water Facility Loans (indiv.)	18,296	29,695,363
Water/Sewer Comprehensive Planning Grants	1,834	22,293,387
Bureau of Reclamation, Soil and Water Loans	283	4,935,550
Land Conservation and Development Loans	274	267,900
Special Impact Grants	2	2,700,000
State Corporation Farm Ownership Loans, Agricultural Credit Corporation Loans, Resettlement Projects, Water Utilization and Construction Loans	(number not available)	89,800,000
Total Discontinued	3,312,889	$ 2,617,705,842
GRAND TOTALS —	9,109,763	$109,119,578,456

* Recreation Assn. Loans included in Community Facility Loans since 1974.

The unpaid principal owed to FmHA on all FmHA loans as of September 30, 1981, totaled $56,213,230,000 billion.

The annual volume of programs, making FmHA the largest Federal loan agency dealing directly with borrowers, reflects the emphasis during the 1960's and 1970's on resources for development or revival of the whole rural community. Money spent on programs increased from $300 million to $1.6 billion during the 1960's. Since then, the following annual levels have been recorded (in thousands):

FY 1969 --	$ 1,431,925
FY 1970 --	1,639,749
FY 1971 --	2,414,316
FY 1972 --	2,789,806
FY 1973 --	3,754,934
FY 1974 --	3,601,475
FY 1975 --	5,486,089
*FY 1976 --	7,190,920
FY 1977 --	7,255,534
FY 1978 --	11,111,102
FY 1979 --	14,601,635
FY 1980 --	12,965,758
FY 1981 --	13,975,037
FY 1982 --	8,778,217

The downward dip between fiscal years 1973 and 1974 was attributed to an exceptionally great outlay for farm emergency loans in 1973 and a January-June moratorium on new subsidized housing that decreased the backlog of loan applications for fiscal year 1974. A large volume of emergency lending was the principal reason why obligations in fiscal year 1975 exceeded those of 1976. The $11 billion volume of 1978 and $14 billion volume of 1979 included record levels for farm emergency, housing, community facility, and business and industrial programs.

*Includes Transition Quarter

Following are summaries of current FmHA services.

FARMER PROGRAMS

FmHA helps finance farmers who cannot get credit they need from other lenders at reasonable rates and terms. FmHA held 7.3 percent of the total outstanding farm debt on January 1, 1979; 9.9 percent outstanding January 1, 1980, and 12.2 percent on January 1, 1982.

The average U.S. farmer has real estate assets of $342,577, up from 73 000 in 1975. The annual production expenses per farm average about $53,812. The average U.S. farmer has invested about $20,119 million in machinery and other non-real estate assets, up from $25,800 in 1970.

Farm ownership loans enable family farmers lacking other sources of credit to buy, improve, or refinance farm real estate. Family size farms operated by individuals, partnerships, cooperatives, or corporations are eligible. Loan limits are $200,000 for insured loans and $300,000 for guaranteed loans. Insured loans may be repaid in up to 40 years. The interest rate for these loans is set periodically, based on the cost of Government borrowing. Repayment terms and interest rates are negotiated between the borrower and the lender in the case of guaranteed loans. Borrowers must refinance through conventional lenders when sufficiently qualified, thereby "graduating" from FmHA credit. Loans may be guaranteed or made from insured funds, secured by mortgage on the farm real estate.

Farm operating loans, insured or guaranteed, are usually secured by chattel mortgage on feed, growing crops, livestock, machinery, or other elements of production. Family farmers and ranchers lacking other sources of production financing are eligible. Terms usually range from 1 to 7 years, according to loan purpose; the interest rate is set periodically, based on the cost of Government borrowing. The limit is $100,000 for insured loans and $200,000 for guaranteed loans.

Limited resource loans are made for the same purposes as farm ownership and operation loans to owner-operator or tenant-operators who, because of lack of equipment, capital, land, adequate financing, or due to under-developed farming practices, need a lower interest rate to have a reasonable chance of success. These are obstacles faced most often by young, beginning, and minority farmers who have not been able to develop farms which earn them an adequate living. The limited resource farmer borrows at the lower interest rates until able to pay the regular rate of lending.

Emergency loans help farmers recover from actual production and physical losses inflicted by natural disasters such as drought, floods and hail storms. To be eligible for an emergency loan the county in which the farm is located must be designated a disaster area. Eligible applicants unable to obtain suitable credit elsewhere may receive subsidized loss loans. Applicants who are able to obtain suitable credit elsewhere may receive actual loss loans at rates prevailing in the private market as determined by the Secretary of Agriculture, provided they are otherwise eligible. The FmHA Administrator can make such designations where fewer than 10 percent of the farmers in any county has suffered qualifying crop losses of 30 percent or more. If more than 10 percent of the farmers are involved, disaster designations are made by the Secretary of Agriculture. Emergency loans are also available to qualified applicants in areas designated as natural disaster areas by the President.

Economic emergency loans were designed to help farmers overcome economic hardships caused by credit scarcity or cost-price squeeze beyond their control. The program, enacted in August 1978, which expired September 31, 1981, provided a total of 121,000 loans totaling $6,628,618,280 through fiscal year 1981. The outstanding loans are being serviced to conclusion by FmHA.

Other farmer programs include insured or guaranteed loans to individual farmers for recreational and other nonagricultural income-producing enterprises on farms and for improvement of soil and water resources, loans to nonprofit associations for irrigation and drainage systems and grazing ranges, loans to Indian tribal organizations to buy privately owned land lying within reservation boundaries, and loans for aquaculture.

HOUSING PROGRAMS

Housing credit was scarce in rural America until the late 1960's, and the consequences were highly visible throughout the Nation's towns and countryside. With 27 percent of the national population, rural America had 47 percent of the Nation's substandard housing. This meant that the ratio of bad housing to number of families was twice as great in rural communites as in the cities.

However, a large-scale attack on rural housing blight has been mounted by FmHA since 1965. Insured loan service comparable to Federal urban housing credit is available to rural people of low or modest income. Over 1 million new or modernized family-owned homes and about 250,000 new apartment units have been built in rural communities. About one-third of the apartment projects serve the need of elderly people for low-cost rental housing.

FmHA's housing program has helped provide decent homes or apartments for the "outmigration" of people from metropolitan areas to small towns and rural areas. Between 1970 and 1975, an estimated 4 million people had moved to the country.

Since 1949, FmHA has provided $39 billion for housing. During fiscal year 1981, FmHA loans and grants funded more than 114,000 living units for $4 billion.

Individual home ownership (section 502) insured loans go to families of low and moderate income, including senior citizens, who need adequate housing. Maximum term for repayments is 33 years. Interest rates vary according to the cost of Government borrowing. Interest credit, which may reduce interest to as low as 1 percent, may be available to qualified low-income borrowers. FmHA housing credit is available to eligible applicants in rural communities of not more than 10,000. FmHA housing credit may be available in communities between 10,000 and 20,000 population if they are not contained within a Standard Metropolitan Statistical Area (SMSA). It has been determined by the Secretary of Agriculture and the Secretary of Housing and Urban Development that there is a serious lack of credit for low- and moderate-income households. A very low income homeowner whose house is severely deficient may be eligible for a grant or a low-interest (section 504) loan for repairs needed to make the house safe and adequate for habitation and to remove health hazards. A maximum loan of $7,500, a maximum grant of $5,000, or maximum loan-grant combination of $7,500 may be available to help very low income elderly homeowners make necessary repairs to their homes. Applicants must be 62 years of age or older to qualify for grant assistance.

Rental housing (section 515) insured loans provide modernized rental or cooperative housing for persons with low and moderate incomes and for those age 62 and older in rural communities of not more than 10,000 population. Such loans may also be available in communities between 10,000 and 20,000 population if the facility is not within an SMSA. The loans are repayable in not more than 50 years. Provisions are made for interest reductions under certain circumstances, so that low-income tenants may pay a rent within their means. Rent paid by low-income tenants also can be supplemented through a rental assistance program administered by FmHA or HUD's section eight rent subsidy program.

Mutual self-help housing loans are made to families who wish to work together to build their own homes with financial and technical assistance from FmHA.

Specialized housing programs include loans and grants for development of adequate farm labor housing, grants to qualified organizations to help low-income families accomplish "self-help" homebuilding projects, 2-year loans to nonprofit organizations to develop rural homesites, and home weatherizing improvements with simplified financing through FmHA and rural electric cooperatives or other utility companies.

COMMUNITY PROGRAMS

Water and waste disposal borrowers -- Approximately 11,800 borrowers are presently receiving water and waste disposal service from systems ranging from small local communities to intercommunity or multicommunity areas. Projects lacking other means of financing may receive FmHA loans for up to 40 years. Grants can be made where necessary to prevent a system's debt repayment load from imposing excessive service rates on partons of the system. Systems financed through FmHA cover rural countryside and towns of not more than 10,000 population.

Other community facilities — The Rural Development Act of 1972 extended FmHA's lending authority to include loans to public bodies or nonprofit organizations for community facilities that provide essential services to rural residents. Fire protection, community halls, hospitals, nursing homes, medical clinics, libraries, and schools are among more than 30 types of community facilities eligible for financing. Facilities may be in the rural countryside or towns of up to 20,000 population. Loan repayment is scheduled for up to 40 years. Interest rates are fixed for the life of the loan and are based on the current market yield for municipal obligations at the time of approval. Additional interest charges may apply to projects located on prime or unique farmland.

Loan applications for public safety such as rescue or fire protection facilities and equipment receive priority status for funding. Joint funding of projects with other lending sources is emphasized in order to receive maximum benefit from program sources.

Other programs — Local costs of projects developed under the small watershed and resource conservation and development programs also may be financed through loans by FmHA to sponsoring local organizations.

BUSINESS AND INDUSTRY PROGRAMS

The business and industry (B&I) loan program was legislated in 1972 under Section 310B of the Consolidated Farm and Rural Development Act in order to encourage business and industrial development in rural areas and to create or preserve employment opportunities in these areas. The program is administered primarily as a guaranteed loan program in communities under 50,000 population, with emphasis on communities of less than 25,000.

When the program began in 1974, there was little rural business credit available. Most industries had not yet recognized the benefits of locating in rural areas and, at that time, national migration was toward larger cities. Today the situation has reversed. During the life of the program, FmHA has guaranteed 6,878 business and industry loans totaling $5.4 billion. In fiscal year 1982, 74 of these loans were made and guaranteed for $125.1 million.

Under the business and industry guaranteed loan program, commercial loans, guaranteed up to 90 percent against loss of principal and interest, are made by lenders to individuals and corporations. The interest rate on these guaranteed loans is negotiated between the borrower and the lender. Loans may be made for improving, developing, or financing business, industry, and employment.

1982 OBLIGATIONS FOR ALL PROGRAMS

Nationwide and State totals of major FmHA loans and grants for fiscal year 1982 follow.

U.S. DEPARTMENT OF AGRICULTURE
FARMERS HOME ADMINISTRATION

Loans and Grants by Program -- Fiscal Year 1982

	Number of Loans or Grants	Dollar Amount
FARMER PROGRAMS:		
Farm Operating Loans..........................	44,919	$ 1,251,008,799
Farm Ownership Loans..........................	10,230	661,603,338
Recreation Loans (Individual).................	9	711,750
Emergency Loans...............................	42,863	2,173,412,200
Soil and Water Loans (Individual).............	1,379	24,776,940
Irrigation and Drainage Loans.................	4	1,313,000
Indian Land Acquisition Loans.................	2	1,037,400
Farmer Programs, Total.........	99,406	$ 4,113,863,427
RURAL HOUSING PROGRAMS:		
Low-Moderate Income Housing Loans.............	80,449	$ 2,478,218,964
Very-Low-Income Repair Loans..................	3,165	10,043,550
Very-Low-Income Repair Grants.................	4,205	13,605,183
Rural Rental Housing Loans....................	1,428	953,667,720
Rental Asst. Program:		
Rental Housing............ (13,570 Units)..	-	356,256,312
Labor Housing................(710 Units)..	-	41,741,568
Farm Labor Housing Loans......................	135	11,910,600
Farm Labor Housing Grants.....................	15	14,948,400
Site Loans....................................	3	384,000
Self-Help Housing Grants......................	30	5,151,764
Housing Programs, Total........	89,430	$ 3,885,928,061
COMMUNITY PROGRAMS:		
Water and Waste Disposal Dev. Loans...........	928	$ 375,000,000
Water and Waste Disposal Dev. Grants..........	444	133,812,889
Development Grants Other Than FmHA............	90	16,409,224
Community Facility Loans......................	267	126,191,250
Watershed and Flood Prevention Loans..........	2	1,050,000
Resource Conservation and Development Loans....	4	885,000
Community Programs, Total	1,735	$ 653,348,363
BUSINESS & INDUSTRY PROGRAMS:		
Business & Industrial Loans...................	69	$ 61,177,575
Alchol Fuel Conversion Loans..................	5	63,900,000
Business/Industry Programs, Total	74	$ 125,077,575
FmHA PROGRAM TOTALS:		
Loans...	185,861	$ 8,196,292,086
Grants (FmHA).................................	4,694	565,516,116
Other Than FmHA Grants........................	90	16,409,224
FmHA Program Total.............	190,645	$ 8,778,217,426

NOTE: All guaranteed loans based on guarantee rates.

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1982

(In Millions of Dollars)

	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
STATE	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
ALABAMA	2,273	$ 100.9	1,425	$ 57.2	53	$ 19.2	2	$ 1.9	3,753	$ 179.2
ALASKA	1	1.0	179	14.8	3	.249	0	0	183	16.0
ARIZONA	351	38.0	786	31.3	4	2.2	0	0	1,141	71.5
ARKANSAS	4,499	195.8	2,745	82.3	84	33.8	0	0	7,328	311.9
CALIFORNIA	866	91.2	2,849	169.9	21	9.0	0	0	3,736	270.1
COLORADO	536	26.3	952	42.0	12	1.4	0	0	1,500	69.7
CONNECTICUT	129	5.0	731	37.3	19	5.2	0	0	879	47.5
DELAWARE	131	5.3	190	5.9	7	.6	0	0	328	11.8
FLORIDA	865	47.2	2,371	101.1	43	22.6	1	1.1	3,280	172.0
GEORGIA	4,075	263.4	3,258	133.2	42	19.4	0	0	7,375	416.0
HAWAII	73	7.3	309	15.2	0	0	0	0	382	22.5
IDAHO	1,228	54.8	995	22.8	13	1.9	0	0	2,236	79.5
ILLINOIS	3,024	115.1	2,654	92.5	45	14.9	2	3.7	5,725	226.2
INDIANA	3,583	180.5	2,088	78.0	63	29.1	0	0	5,734	287.6
IOWA	3,517	118.4	2,711	101.6	37	12.3	1	2.3	6,266	234.6

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1982

(In Millions of Dollars)

STATE	FARM PROGRAMS		HOUSING PROGRAMS		COMMUNITY SERVICE		BUSINESS & INDUSTRY		TOTAL ALL PROGRAMS	
	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars	Number	Dollars
KANSAS	2,244	$ 79.2	1,078	$ 34.9	24	$ 18.7	2	$ 18.0	5,348	$ 150.8
KENTUCKY	3,455	100.0	2,974	122.8	44	21.1	2	1.3	6,475	245.2
LOUISIANA	4,952	229.5	2,745	132.4	79	21.4	5	10.3	7,781	393.6
MAINE	1,051	33.1	1,889	74.3	28	12.4	0	0	2,968	119.8
MARYLAND	331	10.3	726	43.7	10	4.1	0	0	1,067	58.1
MASSACHUSETTS	211	6.8	1,076	39.7	15	6.4	0	0	1,302	52.9
MICHIGAN	1,996	84.2	2,219	74.4	37	21.8	3	1.4	4,255	181.8
MINNESOTA	3,314	122.1	1,437	76.0	39	15.8	3	.590	4,793	214.4
MISSISSIPPI	5,034	262.2	3,378	101.5	84	29.8	0	0	8,496	393.5
MISSOURI	5,197	165.4	3,060	106.6	34	10.1	4	4.6	8,295	286.7
MONTANA	1,072	49.9	779	31.6	6	1.2	0	0	1,857	82.7
NEBRASKA	2,274	85.9	844	28.4	12	1.8	2	18.0	3,132	134.1
NEVADA	94	3.8	239	13.5	1	.63	0	0	342	17.9
NEW HAMPSHIRE	61	1.6	840	36.3	9	2.5	0	0	910	40.4
NEW JERSEY	307	10.7	1,009	40.4	12	6.5	0	0	1,328	57.6

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1982

(In Millions of Dollars)

STATE	FARM PROGRAMS Number	FARM PROGRAMS Dollars	HOUSING PROGRAMS Number	HOUSING PROGRAMS Dollars	COMMUNITY SERVICE Number	COMMUNITY SERVICE Dollars	BUSINESS & INDUSTRY Number	BUSINESS & INDUSTRY Dollars	TOTAL ALL PROGRAMS Number	TOTAL ALL PROGRAMS Dollars
NEW MEXICO	477	$ 22.8	779	$ 31.9	18	$ 3.9	4	$ 2.9	1,278	$ 61.5
NEW YORK	2,083	60.9	1,726	76.9	71	20.6	2	3.3	3,882	161.7
NORTH CAR.	4,885	155.2	5,813	215.8	85	29.7	13	7.0	10,796	407.7
NORTH DAKOTA	3,508	114.5	1,092	48.3	17	2.9	3	25.6	4,620	191.3
OHIO	3,608	157.6	1,674	69.7	49	19.9	0	0	5,331	247.2
OKLAHOMA	2,704	124.3	1,998	84.3	66	19.8	0	0	4,768	228.4
OREGON	598	31.8	1,457	60.5	22	6.0	0	0	2,077	98.3
PENNSYLVANIA	1,242	38.6	2,773	109.9	27	12.3	0	0	4,042	160.8
RHODE ISLAND	31	.810	244	11.1	4	.627	0	0	279	12.5
SOUTH CAR.	2,099	91.1	2,203	102.3	45	27.6	6	3.3	4,353	224.3
SOUTH DAKOTA	4,928	154.7	666	18.6	31	14.2	1	1.6	5,626	189.1
TENNESSEE	2,798	94.9	3,271	120.7	47	21.1	3	5.1	6,119	241.8
TEXAS	7,672	383.4	3,174	136.9	104	43.7	5	4.3	10,955	568.3
UTAH	312	10.9	742	31.0	13	3.3	0	0	1,067	45.2
VERMONT	392	8.4	980	33.2	10	2.1	0	0	1,382	43.7

MAJOR PROGRAM TOTALS BY STATE - FISCAL YEAR 1982

(In Millions of Dollars)

STATE	FARM PROGRAMS Number	 Dollars	HOUSING PROGRAMS Number	 Dollars	COMMUNITY SERVICE Number	 Dollars	BUSINESS & INDUSTRY Number	 Dolllars	TOTAL ALL PROGRAMS Number	 Dollars
VIRGINIA	1,259	$ 39.1	2,085	$ 69.5	11	$ 6.8	0	$ 0	3,355	$ 115.4
WASHINGTON	702	35.8	1,288	64.3	38	6.8	0	0	2,028	106.9
WEST VIRGINIA	442	8.5	1,339	66.6	28	12.6	10	6.1	1,819	93.8
WISCONSIN	1,968	58.6	1,904	69.4	47	13.8	1	1.0	3,920	142.8
WYOMING	258	9.6	596	30.6	6	1.0	0	0	860	41.2
PUERTO RICO	691	18.4	2,693	76.8	23	19.8	2	2.1	3,409	117.1
VIRGIN ISLANDS	1	.37	65	3.9	0	.0	0	0	66	4.2
WEST PACIFIC TERRITORIES	4	.58	761	13.2	1	.108	0	0	766	13.8

(Totals may not add due to rounding.)

(Totals do not include weatherization, rural rental assistance or mutual self-help and contracts.)

STATISTICS ON FmHA PERFORMANCE BY FISCAL YEAR
(Dollars in Billions)

		1980		1981		1982	
		Number	Amount	Number	Amount	Number	Amount
I	Cumulative Loans/ Grants............	8,679,279	$86.0	8,998,324	$100.0	9,188,969	$109.0
	Farm Operating.....	2,249,653	10.4	2,279,491	11.2	2,324,410	12.5
	Emergency..........	993,833	13.3	1,132,823	18.4	1,175,686	20.6
	Economic Emergency.	93,652	5.4	121,000	6.6	121,000	6.6
	Farm Ownership.....	355,225	8.0	367,078	8.8	377,308	9.4
	* Total Farm......	7,041,766	40.0	7,252,083	48.1	7,351,489	52.2
	RH 502/504.........	1,544,414	25.4	1,639,309	28.0	1,722,923	30.5
	RR Housing.........	12,671	4.2	14,137	5.0	15,565	6.0
	* Total Housing, Loans/Grants...	1,590,449	31.1	1,694,868	35.1	1,784,298	39.0
	Water and Waste Loans/Grants......	32,431	8.4	34,987	9.3	36,359	9.8
	* Total Community Loans/Grants...	40,898	10.3	44,569	11.5	46,304	12.2
	Business & Industry Loans.............	6,166	4.6	6,804	5.3	6,878	5.4

II Write-offs as Percent of Advances (Insured and Direct Programs):

	1980 Sept. 30th	1981 Sept. 30th	1982 Sept. 30th
Farm Operating..........	1.4%	1.3%	1.3%
Farm Emergency:			
Total.................	1.0%	.7%	.7%
Current Program.......	.3%	.2%	.2%
Economic Emergency	**	**	**
Farm Ownership..........	.12%	.11%	.11%
RH 502/504..............	.15%	.14%	.15%
Rural Rental Housing....	**	**	.01%
Business & Industrial Loans (Insured).......	0	0	0
* All Programs........	.6%	.6%	.5%

III Active Borrowers and Amount Outstanding as of End of Fiscal Year: a/

	1980		1981		1982	
	Active Borrowers	Amount (Bil.)	Active Borrowers	Amount (Bil.)	Active Borrowers	Amount (Bil.)
Farm Operating	87,073	$2.0	91,829	$2.1	103,818	$2.7
Farm Emergency	93,112	7.4	126,640	10.7	123,433	10.7
Economic Emergency	61,225	4.5	69,241	5.0	65,614	4.6
Farm Ownership	118,424	4.7	121,385	5.3	122,546	5.8
RH 502/504	950,140	17.5	990,451	19.3	1,013,955	20.7
Rental Housing	7,098	2.9	7,915	3.7	8,737	4.4
Water & Waste	10,481	4.1	11,157	4.6	11,911	5.2
* All Programs.	1,351,045	44.6	1,442,905	52.5	1,474,263	56.2

a/ Excludes Guaranteed Loans
* Includes small programs not listed, so columns do not add.
** Less than 0.05 percent.

STATISTICS ON FmHA PERFORMANCE

Cumulative, all loans and grants obligated through September 30, 1982:

9.2 Million loans/grants made
109.0 Billion obligated in loans/grants

Farm Operating Loans	-	2,324,410	loans -	$ 12.5 billion
Farm Emergency Loans	-	1,175,686	loans -	20.6 billion
Farm Ownership Loans	-	377,308	loans -	9.4 billion
All Farm Loan Totals	-	7,351,489	loans -	52.2 billion*
502-504 Housing Loans	-	1,722,923	loans -	30.5 billion
Rental Housing Loans	-	15,565	loans -	6.0 billion
All Housing Loan & Grant Totals	-	1,784,298		39.0 billion*
Water/Waste Loans & Grants	-	36,359		9.8 billion
All Community Loan and Grant Totals	-	46,304		12.2 billion
B & I Loans	-	6,878	loans -	5.4 billion

Write-offs as percent of advances for Insured and Direct Programs:

Farm Operating Loans	-	1.3
Farm Emergency Loans:		
Total	-	.7
Current Program	-	.2
Economic Emergency	-	.03
Farm Ownership Loans	-	.11
502-504 Housing Loans	-	.15
Rental Housing Loans	-	.01
B&I Loans (Insured)	-	0
Total, all active programs	-	.5

Active borrowers and dollars outstanding, September 30, 1982: a/

Programs	Active Borrowers	Billion Dollars
Farm Operating	103,818	$ 2.7
Farm emergency	123,433	10.7
Economic Emergency	65,614	4.6
Farm Ownership	122,546	5.8
502-504 Housing	1,013,955	20.7
Rental Housing	8,737	4.4
Water/Waste (only)	11,911	5.2
Total All Programs *	1,474,263	56.2

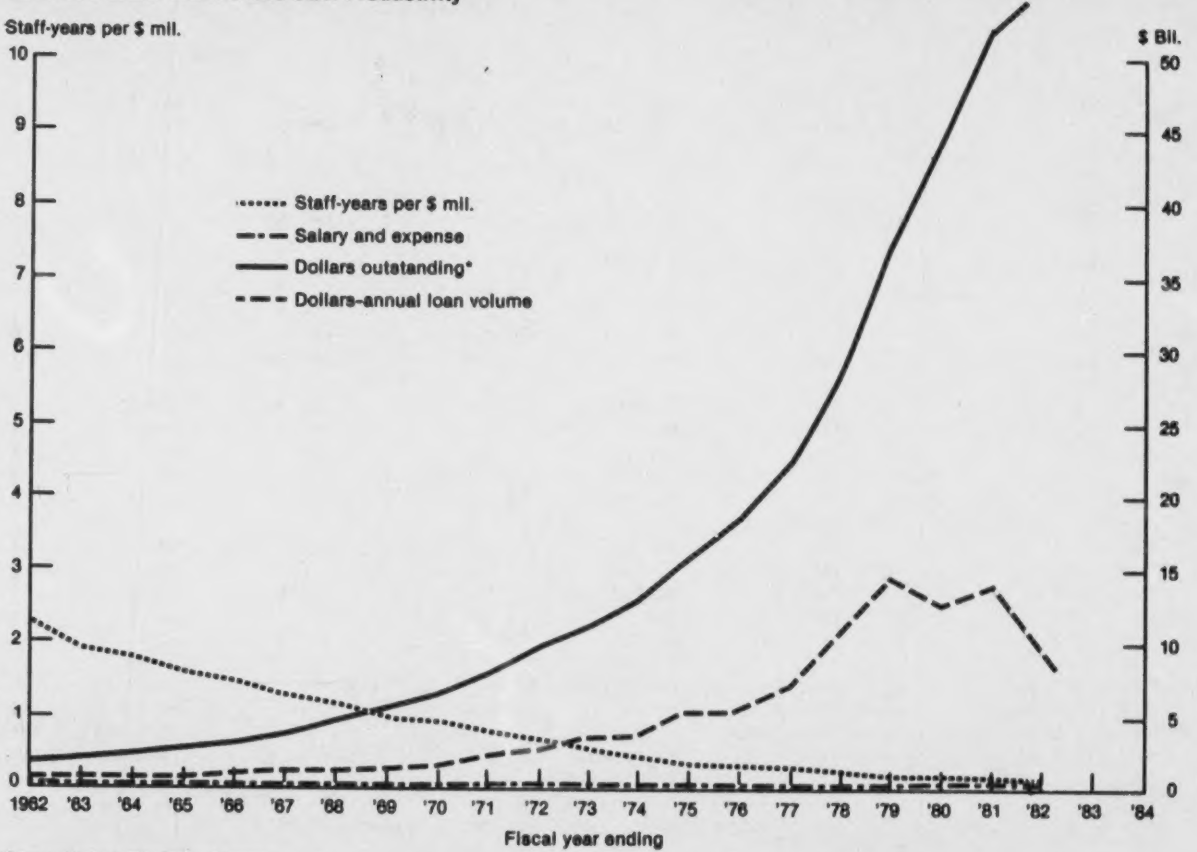
a/ Excludes Guaranteed Loans.

* Includes minor programs not shown, so columns do not add.
** Less than 0.5 percent.

MISD Division
1983

(Chart 1)

Loan and Grant Volume and Staff Productivity



*Does not include "Guaranteed Loans."

LOAN AND GRANT VOLUME AND STAFF PRODUCTIVITY

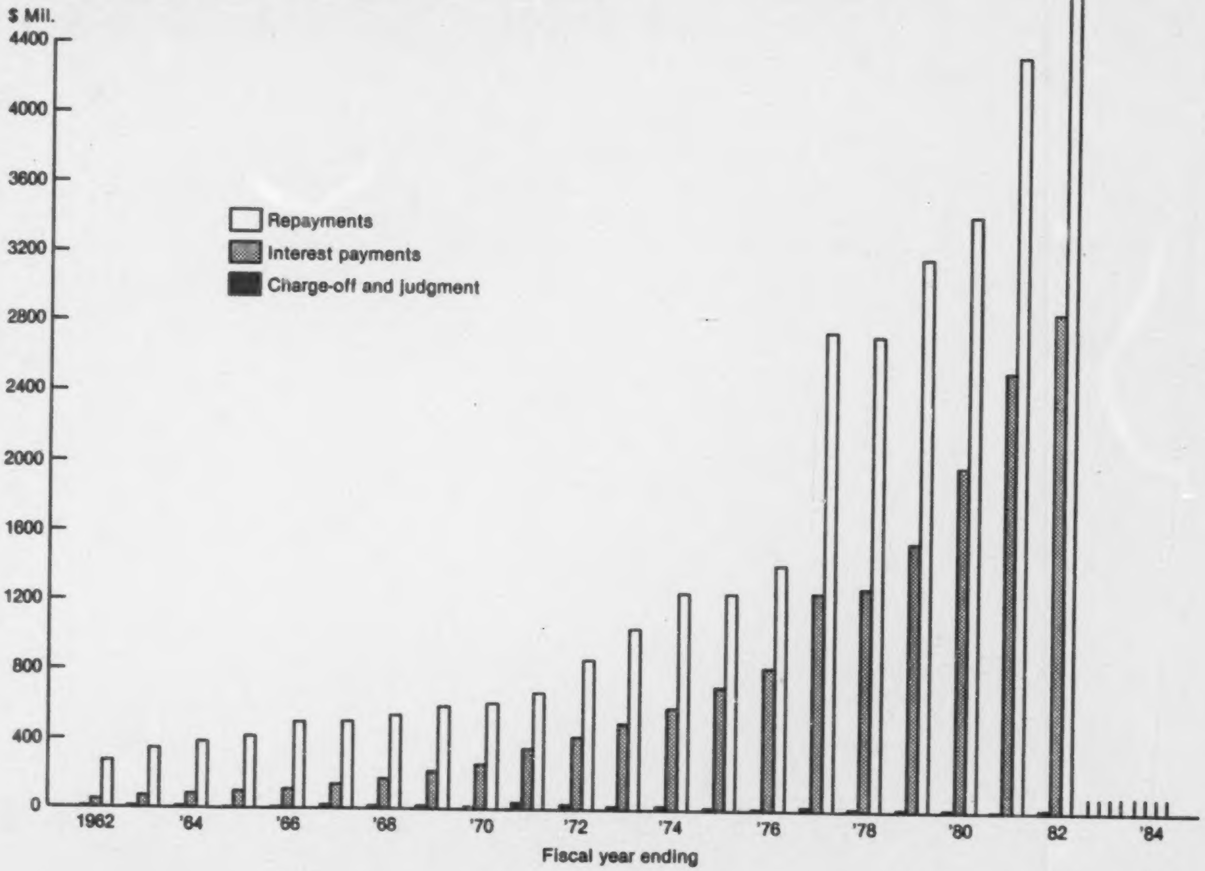
	*Principal Dollars Outstanding End of FY (Billions)	Annual Loan & Grant Volume (Billions)	Total (Billions)	Total Staff Years	Salaries and Expenses (Millions)	Dollars For Which One Person Is Responsible (Millions)	No. of Staff Years For Loan Processing and Servicing Per Million
1962	1.620	$ .637	2.257	5,253.0	$ 39.720	$ .430	2.3
1963	2.038	.796	2.834	5,419.0	40.800	.523	1.9
1964	2.353	.747	3.100	5,484.1	44.218	.565	1.8
1965	2.753	.800	3.553	5,858.0	49.563	.607	1.6
1966	3.221	1.088	4.309	6,590.1	57.826	.654	1.5
1967	3.914	1.390	5.304	7,102.5	62.214	.747	1.3
1968	4.778	1.359	6.137	7,360.1	67.861	.834	1.2
1969	5.552	1.431	6.983	7,271.7	72.354	.960	1.0
1970	6.525	1.639	8.164	7,662.7	86.159	1.065	.94
1971	7.869	2.414	10.283	8,533.9	103.422	1.205	.83
1972	9.622	2.789	12.411	8,865.9	113.888	1.400	.71
1973	11.206	3.750	14.956	8,672.0	121.766	1.725	.58
1974	12.977	3.591	16.568	8,168.4	128.724	2.029	.49
1975	15.836	5.466	21.302	8,359.0	142.828	2.548	.39
1976	18.456	5.393	23.849	8,555.4	158.692	2.788	.36
1977	22.526	7.236	29.762	9,405.4	187.959	3.164	.32
1978	28.712	11.089	40.428	10,233.0	227.867	3.952	.26
1979	37.304	14.672	51.976	10,842.0	254.517	4.794	.21
1980	44.630	12.966	57.596	11,813.0	288.321	4.876	.21
1981	52.470	13.975	66.445	12,541.0	322.748	5.298	.19
1982	56.213	8.762	64.975	11,213.0	327.231	5.795	.17

* Does not include "Guaranteed Loans."

(Table 1)

(Chart 2)

Repayments, Charge-Offs, Judgments, and Interest Payments



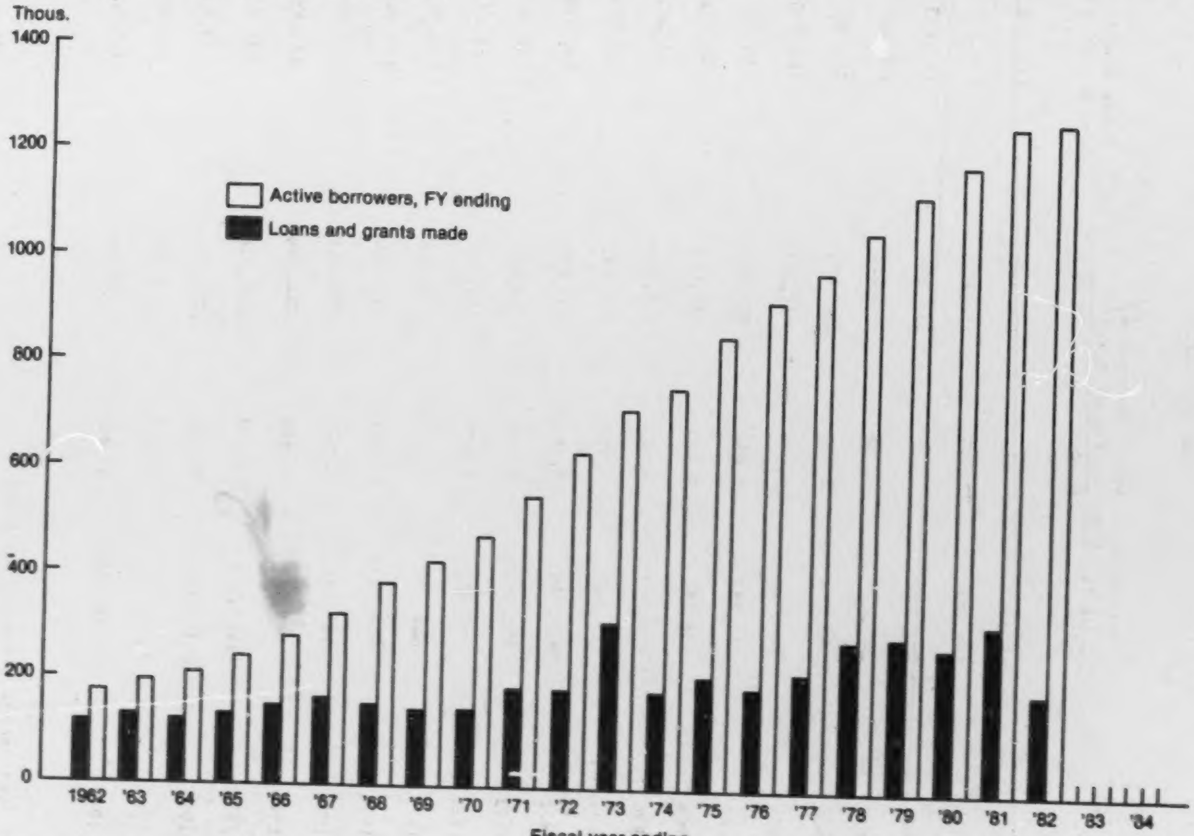
REPORT OF LOAN COLLECTION AND DEBT ADJUSTMENT ACTIVITIES DURING YEAR

Fiscal Year	Principal Repayments (Millions)	Principal Charge Offs and Judgments (Millions)	Interest Payments (Millions)
1962	$ 280.9	$ 5.2	$ 52.2
1963	349.1	5.8	67.9
1964	388.9	7.0	84.9
1965	413.7	4.8	99.7
1966	502.6	4.9	118.6
1967	503.4	17.9	145.7
1968	539.9	12.5	182.6
1969	599.2	16.1	222.9
1970	610.5	13.7	259.1
1971	671.6	33.8	344.8
1972	859.2	26.3	415.4
1973	1,045.0	19.7	497.9
1974	1,247.1	22.2	589.2
1975	1,244.2	18.5	704.1
1976	1,404.5	9.2	824.6
1977	2,753.6	21.9	1,251.7
1978	2,725.5	14.3	1,268.3
1979	3,173.3	16.5	1,543.1
1980	3,418.9	15.6	1,983.3
1981	4,325.4	6.9	2,522.6
1982	4,838.2	29.8	2,873.1

(Table 2)

(Chart 3)

Total Active Borrowers; Annual Loans Made



*Guaranteed Loans not included. **Estimated.

FmHA STATISTICS

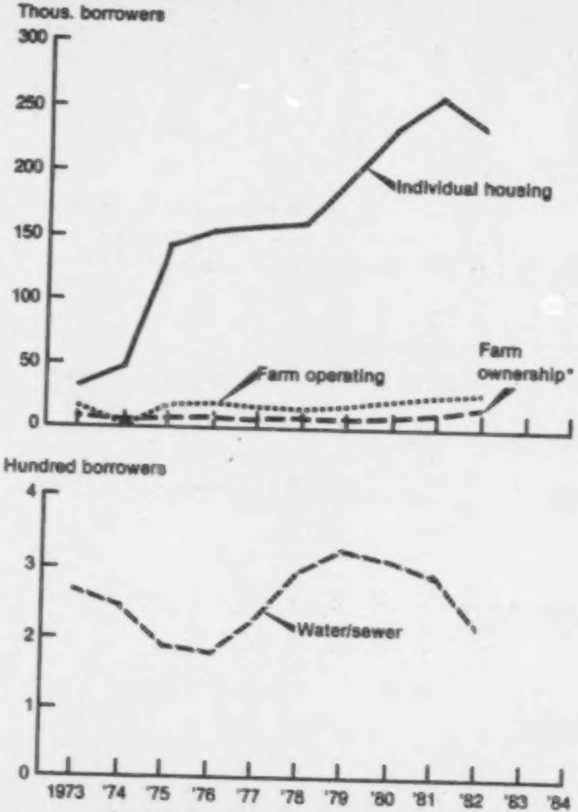
	Number of Active Borrowers as of end of Fiscal Year*			Total Number of Loans & Grants Made
	Indiv.	Assoc.	Total	
1962	175,972	428	176,400	119,958
1963	198,089	543	198,632	134,172
1964	212,420	788	213,208	127,013
1965	241,790	1,265	243,055	138,020
1966	280,098	2,302	282,400	155,889
1967	324,418	3,909	328,327	169,630
1968	377,857	5,088	382,945	155,521
1969	418,167	6,233	424,400	148,414
1970	470,267	6,973	477,240	149,407
1971	548,143	7,556	555,699	191,913
1972	627,744	8,151	635,895	190,188
1973	710,980	8,705	719,653	318,587
1974	750,421	9,000	759,421	189,437
1975	844,527	9,997	854,524	216,852
1976	908,723	11,317	920,040	197,949
1977	967,066	12,945	980,011	222,684
1978	1,040,207	14,412	1,054,619	283,696
1979	1,108,353	16,173	1,124,526	294,890
1980	1,167,006	18,235	1,185,241	274,990
1981	1,228,277	19,929	1,248,206	319,045
1982	1,250,433	21,834	1,272,206	190,555

* Guaranteed Loans not included

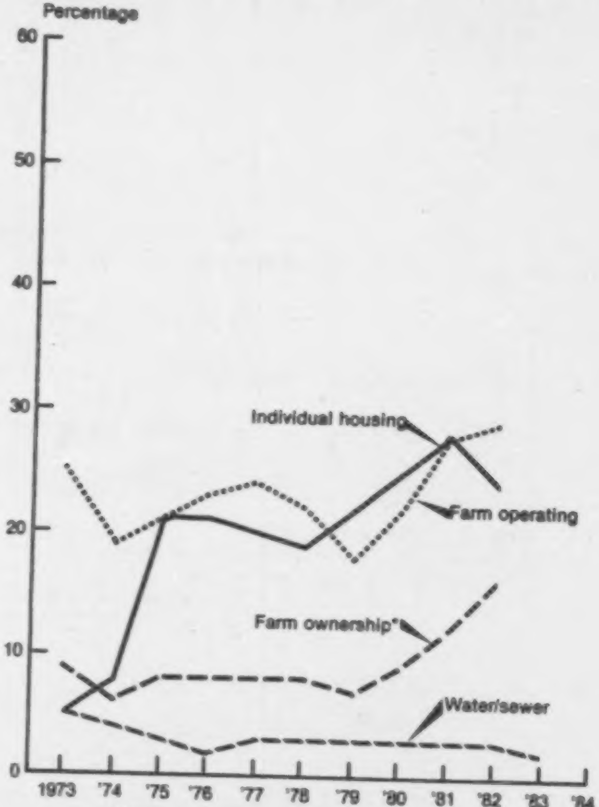
(Table 3)

(Chart 4)

Major FmHA Programs



Number of borrowers delinquent as of June 30



Percent of borrowers delinquent as of June 30

*Does not include non-farm enterprises.

BORROWERS DELINQUENT, MAJOR PROGRAMS,
BY NUMBER AND PERCENTAGE AS OF JUNE 30

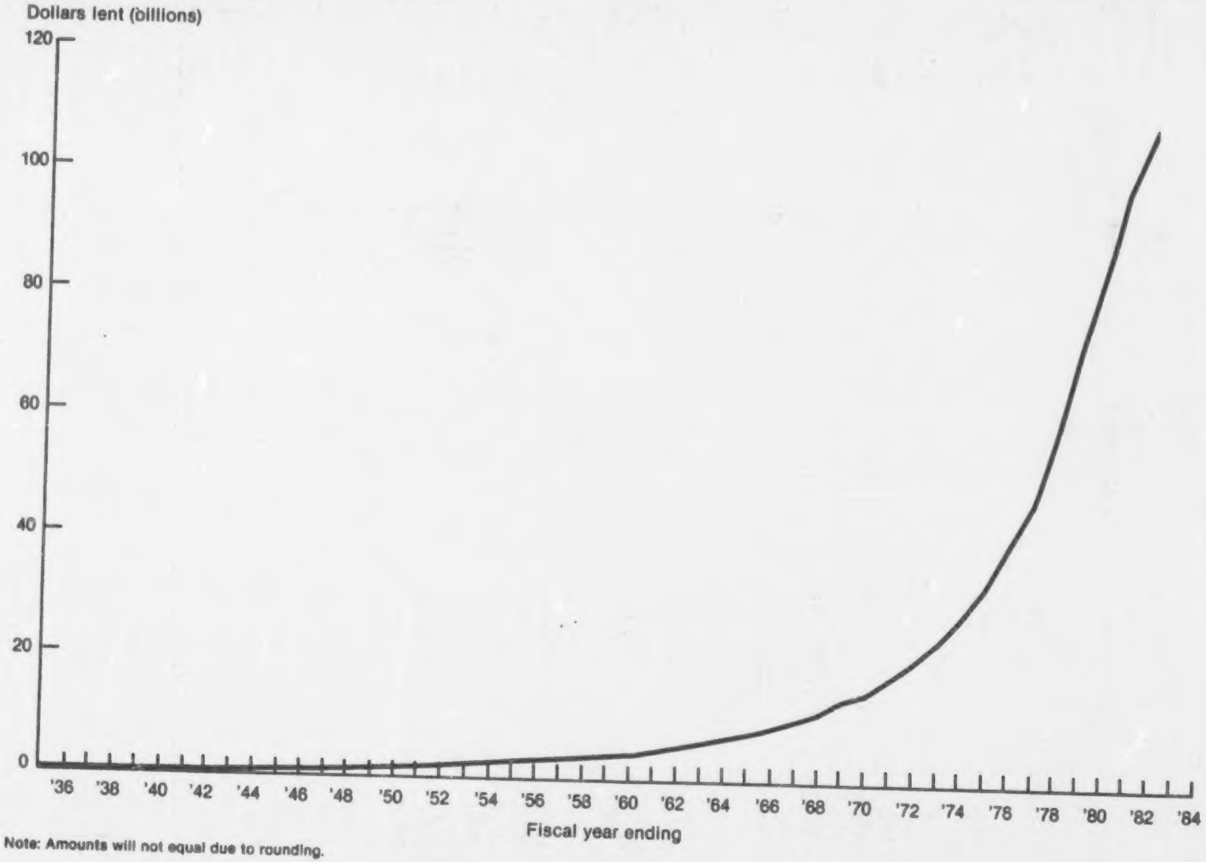
	1974		1975		1976		1977		1978		1979		1980		1981		1982	
Program	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%	Number	%
Farm Ownership*	6,270	6	8,949	8	9,117	8	8,978	8	9,024	8	8,288	7	10,553	9	14,125	12	19,009	16
Farm Operating	1,757	19	17,858	21	19,425	23	17,891	24	17,772	22	17,959	18	21,271	24	25,080	28	29,575	29
Water & Waste	243	4	187	3	177	2	222	3	292	3	325	3	308	3	286	3	286	2
Individual Housing	47,820	8	142,435	21	153,425	21	156,344	20	160,044	19	195,179	22	235,406	25	260,028	28	230,659	24

* Does not include nonfarm enterprises.

(Table 4)

(Chart 5)

Cumulative Dollars Lent, Grants Administered



Note: Amounts will not equal due to rounding.

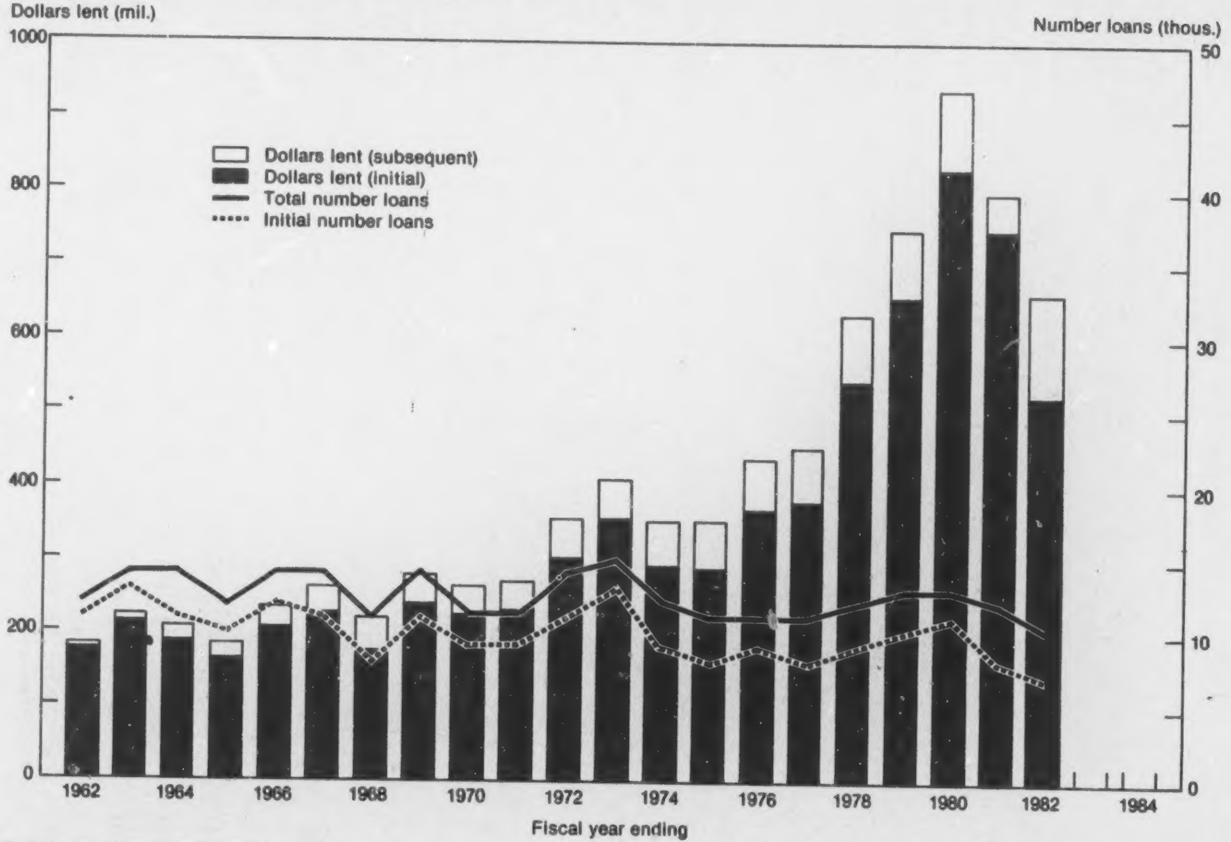
Dollars Loaned and Grants Administered (Cumulative)

	Farm (Thousand)	Housing (Thousand)	Community (Thousand)	Farm Housing Community (Thousand)
1935	676			676
1936	76,964			76,964
1937	152,466			152,466
1938	232,770			232,770
1939	376,552			376,552
1940	511,576		2	511,578
1941	677,655		56	677,711
1942	854,019		134	854,153
1943	988,046		149	988,195
1944	1,082,514		149	1,082,663
1945	1,167,454		232	1,167,686
1946	1,295,580		381	1,295,961
1947	1,445,061		501	1,445,562
1948	1,528,128		661	1,528,789
1949	1,646,632		754	1,647,386
1950	1,809,284	18,161	1,013	1,828,457
1951	1,961,699	42,253	1,563	2,005,515
1952	2,152,421	63,408	1,961	2,217,789
1953	2,360,918	82,765	2,800	2,446,484
1954	2,636,422	98,833	3,676	2,738,932
1955	2,928,478	98,833	4,863	3,032,174
1956	3,231,423	102,554	5,835	3,339,812
1957	3,565,721	123,845	6,542	3,696,108
1958	3,861,819	156,911	7,540	4,026,270
1959	4,159,454	217,585	10,859	4,387,899
1960	4,426,742	258,321	11,707	4,696,771
1961	4,746,439	328,662	17,353	5,092,454
1962	5,273,854	425,160	30,856	5,729,870
1963	5,864,145	612,900	49,010	6,526,054
1964	6,428,571	750,243	95,034	7,273,848
1965	7,026,754	885,206	161,965	8,073,925
1966	7,692,062	1,153,755	316,793	9,162,610
1967	8,402,694	1,596,875	554,130	10,553,698
1968	9,040,063	2,089,911	781,816	11,911,789
1969	9,740,957	2,602,000	1,000,757	13,343,714
1970	10,383,687	3,395,835	1,203,942	14,983,463
1971	11,079,895	4,794,932	1,522,952	17,397,779
1972	11,898,367	6,413,709	1,875,510	20,187,585
1973	13,330,329	8,277,018	2,335,172	23,942,520
1974	14,353,648	10,070,346	3,120,000	27,543,994
1975	16,362,179	12,315,226	4,352,679	33,030,084
1976	18,187,039	14,840,862	5,412,773	38,440,675
1976 + TQ	18,561,883	15,751,596	5,907,085	40,220,565
1977	20,994,914	18,897,401	7,583,784	47,476,099
1978	25,990,776	22,658,749	9,937,676	58,587,201
1979	33,696,244	26,945,340	12,547,252	73,188,836
1980	40,045,519	31,166,003	15,065,002	86,276,524
1981	48,119,358	35,109,573	17,022,630	100,251,561
1982	52,233,221	38,995,501	17,801,056	109,029,778

NOTE: Amounts will not equal due to rounding. (Table 5)

(Chart 6)

Farm Ownership Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan costs.

FARM OWNERSHIP PROGRAM
Number of Loans and Dollars Lent*

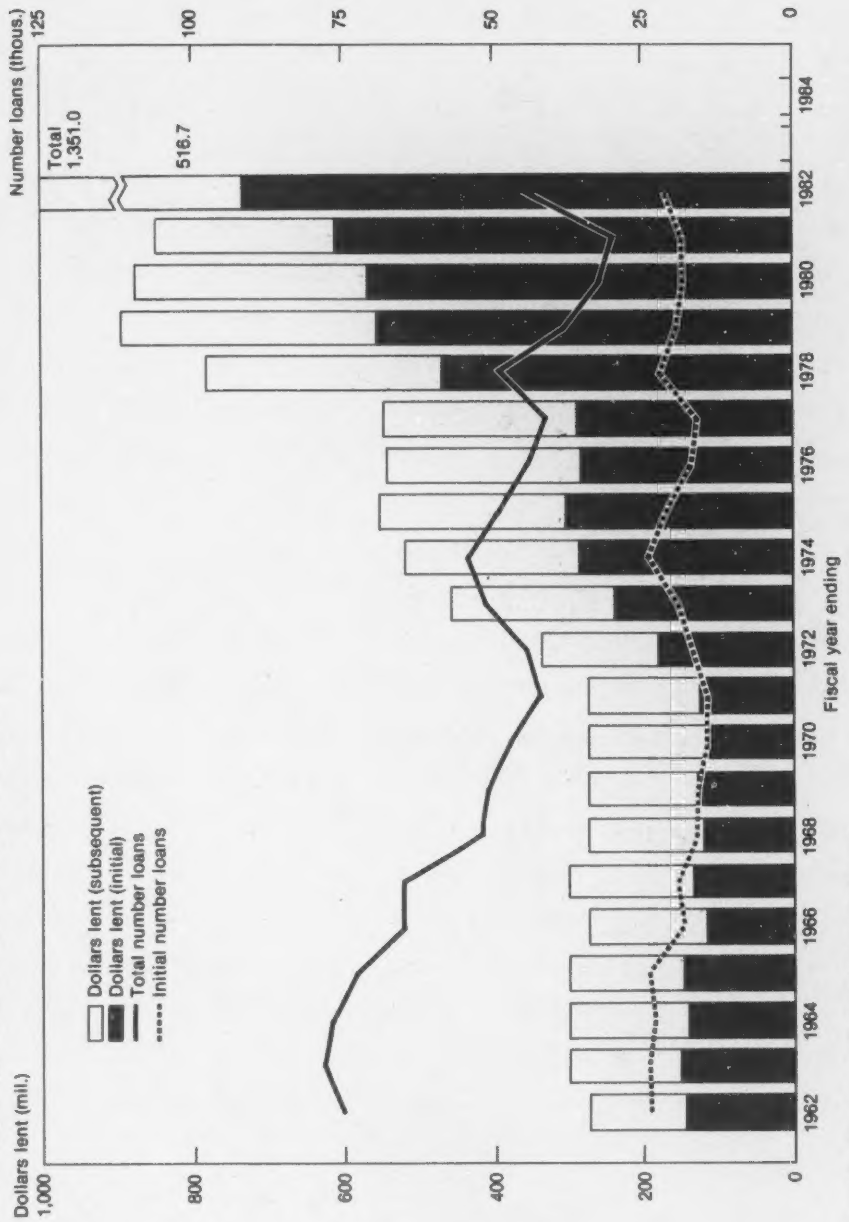
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	10,943	$ 175,524,312	845	$ 7,483,366	11,788	$ 183,007,678
1963	13,286	212,200,471	1,121	9,555,527	14,407	221,755,998
1964	11,061	184,899,960	2,497	21,381,410	13,558	206,281,370
1965	9,885	162,295,970	2,301	20,295,320	12,186	182,591,290
1966	11,532	205,806,910	2,747	27,430,513	14,279	223,237,423
1967	11,101	226,587,210	2,886	33,412,389	13,987	259,999,599
1968	8,403	176,289,150	2,411	28,709,744	10,814	204,998,894
1969	10,525	237,047,040	3,177	40,073,052	13,702	277,120,092
1970	8,644	222,949,520	2,841	38,547,055	11,491	261,496,575
1971	8,522	230,560,910	2,434	37,875,258	10,956	268,436,168
1972	10,718	302,220,690	3,037	53,541,329	13,755	355,762,019
1973	12,593	356,058,150	2,899	52,059,220	15,492	408,117,370
1974	8,728	291,482,260	3,269	60,679,170	11,997	352,161,430
1975	7,550	286,608,341	3,048	65,024,420	10,598	351,632,761
1976	8,583	367,204,570	2,788	67,800,228	11,371	435,004,798
1977	8,353	378,916,850	2,769	72,323,130	11,122	451,239,980
1978	9,384	474,266,230	2,631	76,580,270	12,015	550,846,500
1979	10,179	667,699,570	2,389	95,465,200	12,568	768,164,770
1980	10,616	842,738,150	2,356	111,313,930	12,972	954,052,080
1981	9,014	688,163,820	2,839	125,121,290	11,853	813,285,110
1982	6,821	520,994,148	3,409	140,609,190	10,230	661,603,338

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 6)

(Chart 7)

Farm Operating Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

FARM OPERATING LOAN PROGRAM
Number of Loans and Dollars Lent*

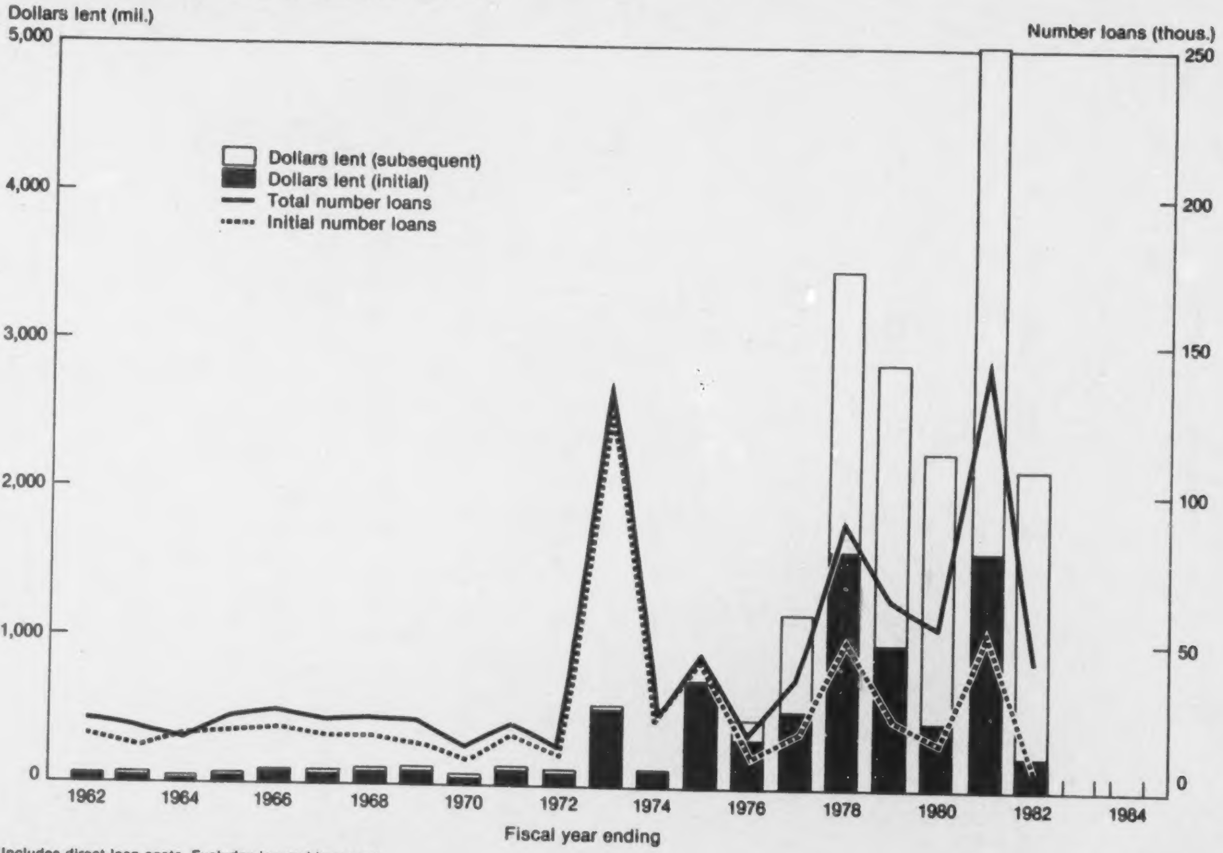
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	24,378	$143,025,215	50,299	$131,974,785	74,677	$274,000,000
1963	23,770	149,776,720	54,222	150,223,280	77,992	300,000,000
1964	22,939	139,637,260	53,672	160,362,740	76,611	300,000,000
1965	24,127	146,510,340	48,470	153,489,660	72,597	300,000,000
1966	18,255	115,620,870	46,488	159,379,130	64,743	275,000,000
1967	18,893	131,918,850	46,006	168,081,150	64,899	300,000,000
1968	15,784	119,917,490	36,537	155,082,510	52,321	275,000,000
1969	16,234	127,094,340	34,577	147,905,630	50,811	274,999,970
1970	14,247	114,416,920	32,410	160,583,048	46,657	274,999,968
1971	13,635	125,499,360	28,545	149,500,631	42,180	274,999,991
1972	16,649	181,229,350	27,196	156,056,468	43,845	337,285,818
1973	19,172	237,329,750	31,808	217,314,627	50,980	454,644,377
1974	23,965	282,416,201	29,900	242,577,627	53,865	524,993,821
1975	20,560	302,266,678	28,694	248,520,072	49,254	550,786,750
1976	17,172	279,529,768	26,876	259,687,665	44,048	539,217,433
1977	15,709	283,770,260	24,830	258,573,030	40,539	542,343,290
1978	22,176	466,642,040	27,238	313,985,760	49,414	780,627,800
1979	19,079	552,541,730	18,863	342,212,170	37,942	894,753,900
1980	17,568	565,596,300	14,643	309,232,700	32,211	874,829,000
1981	18,157	605,727,550	11,681	241,875,810	29,838	847,603,360
1982	21,310	734,338,846	23,609	516,669,953	44,919	1,251,008,799

* Includes Direct Loan Costs
Excludes Insured Loan Costs

(Table 7)

(Chart 8)

Emergency Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

EMERGENCY LOAN PROGRAM
Number of Loans and Dollars Lent*

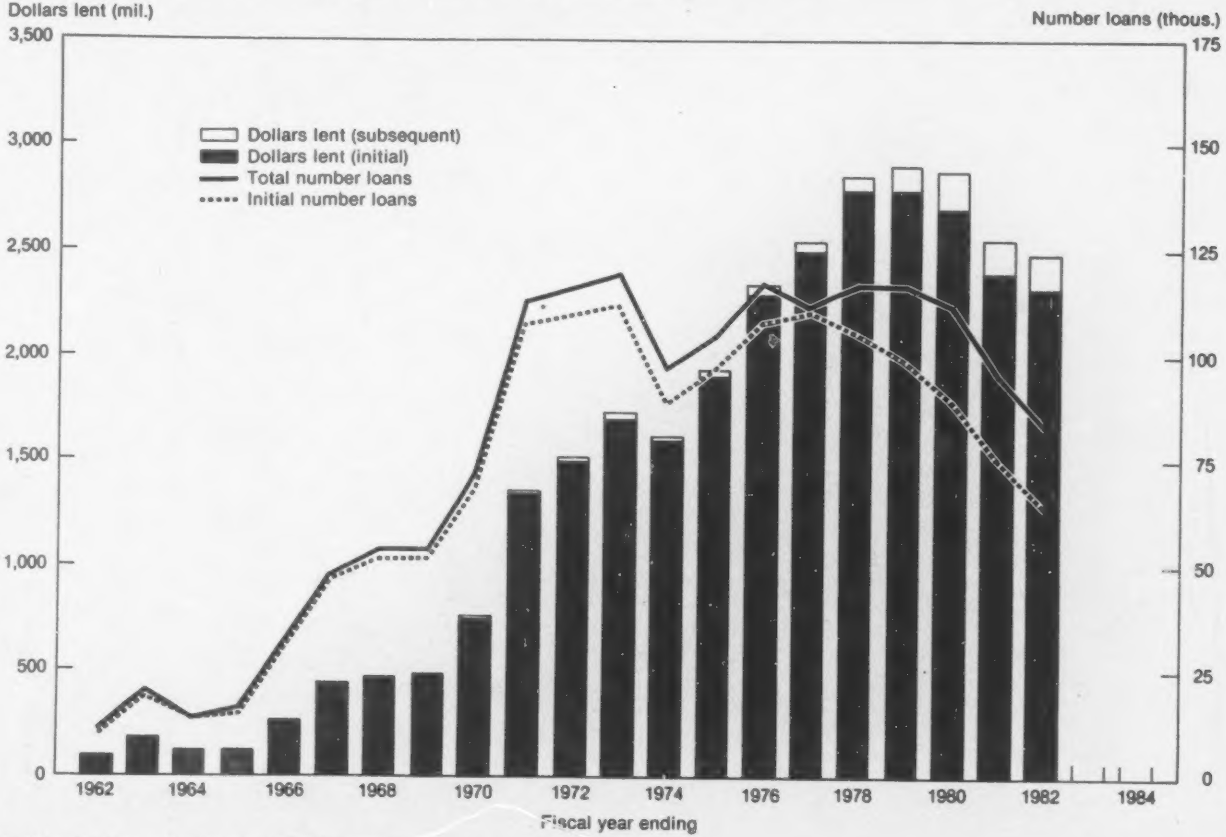
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	16,107	$ 50,114,260	4,754	$ 13,225,816	20,861	$ 63,340,076
1963	13,447	45,421,785	5,897	17,057,454	19,344	62,479,239
1964	10,357	33,263,300	4,945	16,934,483	15,302	50,197,783
1965	16,743	60,183,375	5,547	18,263,786	22,290	78,447,161
1966	18,273	77,420,090	6,098	23,069,241	24,371	100,489,331
1967	15,765	66,425,255	6,409	28,197,013	22,174	94,622,268
1968	16,124	77,528,270	6,104	30,646,155	22,228	108,174,425
1969	13,509	75,427,940	7,177	39,288,213	20,686	114,716,153
1970	7,800	56,364,080	4,978	33,066,080	12,778	89,430,160
1971	16,025	101,216,425	3,779	26,419,481	19,804	127,635,906
1972	9,716	83,420,630	3,263	25,491,179	12,979	108,911,809
1973	124,783	527,727,353	3,884	30,039,242	128,667	557,766,595
1974	22,016	117,361,657	418	10,975,112	22,434	128,336,769
1975	42,976	722,263,783	699	12,756,754	43,675	735,020,537
1976	11,880	321,395,514	4,998	156,316,305	16,878	447,711,819
1977	16,666	515,709,080	19,103	662,678,900	35,769	1,178,387,980
1978	48,166	1,558,223,570	40,953	1,853,584,630	89,119	3,411,808,200
1979	24,838	970,026,080	38,075	1,901,615,680	62,913	2,871,641,760
1980	16,127	473,962,490	38,267	1,792,927,830	54,394	2,266,890,320
1981	51,871	1,550,820,070	87,119	3,561,470,360	138,990	5,112,290,430
1982	6,101	222,528,630	36,762	1,950,883,570	42,863	2,173,412,200

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 8)

(Chart 9)

Rural Housing Loans to Individuals, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

RURAL HOUSING 502 and 504 LOANS TO INDIVIDUALS
Number of Loans and Dollars Lent*

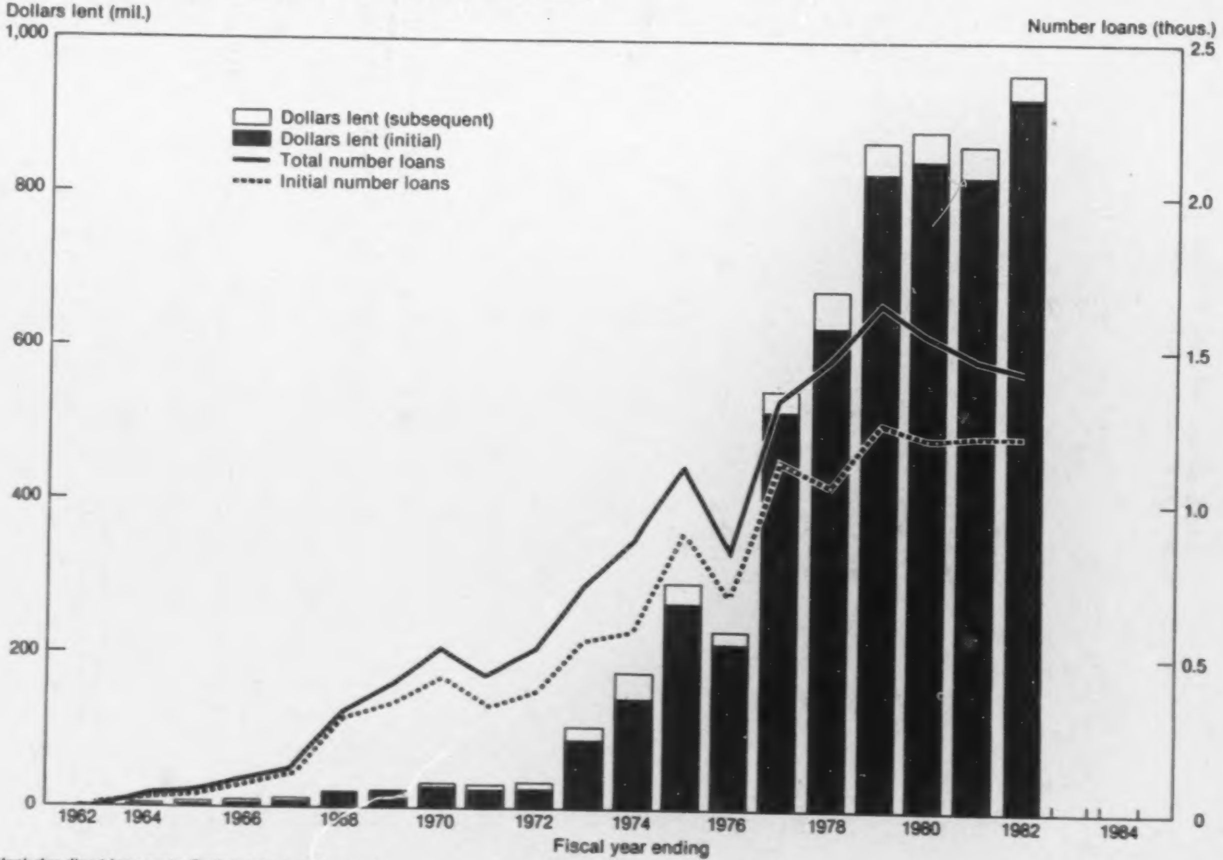
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	10,706	$ 94,054,759	641	$ 2,321,193	11,347	$ 96,375,952
1963	19,164	184,265,722	694	2,106,004	19,858	186,371,726
1964	13,802	128,876,270	576	1,610,384	14,378	130,486,654
1965	15,177	129,343,600	591	1,632,387	15,768	130,975,987
1966	30,908	255,558,560	1,121	3,061,551	32,029	258,620,111
1967	46,879	425,604,835	1,558	4,527,934	48,437	430,132,769
1968	51,970	468,185,434	2,357	5,479,564	54,327	437,664,998
1969	51,560	480,363,630	2,878	5,857,314	54,438	486,220,944
1970	69,423	750,919,400	3,928	10,677,131	73,351	761,596,531
1971	108,188	1,353,830,290	5,276	13,937,662	113,464	1,376,767,952
1972	110,097	1,549,571,250	5,888	17,048,825	115,985	1,566,620,075
1973	111,779	1,712,380,440	8,004	27,875,832	119,783	1,740,256,272
1974	88,728	1,569,628,860	8,278	24,684,069	97,006	1,594,312,929
1975	96,688	1,903,281,940	8,382	28,169,930	105,070	1,931,451,870
1976	107,514	2,256,680,464	9,544	35,892,200	117,058	2,292,572,664
1977	110,543	2,528,014,600	11,534	48,612,460	122,136**	2,576,675,030**
1978	104,869	2,778,813,490	12,000	56,578,350	117,382**	2,703,242,438**
1979	98,987	2,778,813,490	17,423	114,040,970	117,206**	2,893,558,790**
1980	89,181	2,687,208,580	21,709	178,072,090	112,391**	2,866,530,690**
1981	75,002	2,446,551,790	18,212	160,648,300	94,895**	2,608,876,334**
1982	64,728	2,323,295,534	17,319	163,164,721	83,614	2,488,262,514

* Includes Direct Loan Costs (Table 9)
Excludes Insured Loan Cost

** Includes 59 Weatherization Loans for 47,970 in FY 1977.
Includes 513 Weatherization Loans for 447,828 in FY 1978.
Includes 796 Weatherization Loans for 704,330 in FY 1979.
Includes 1,501 Weatherization Loans for 1,250,020 in FY 1980.
Includes 1,681 Weatherization Loans for 1,676,244 in FY 1981.
Includes 1,567 Weatherization Loans for 1,802,259 in FY 1982.

(Chart 10)

Rural Rental Housing Loans, Number of Loans, Dollars Lent*



*Includes direct loan costs. Excludes insured loan cost.

RURAL RENTAL HOUSING PROGRAM
Number of Loans and Dollars Lent*

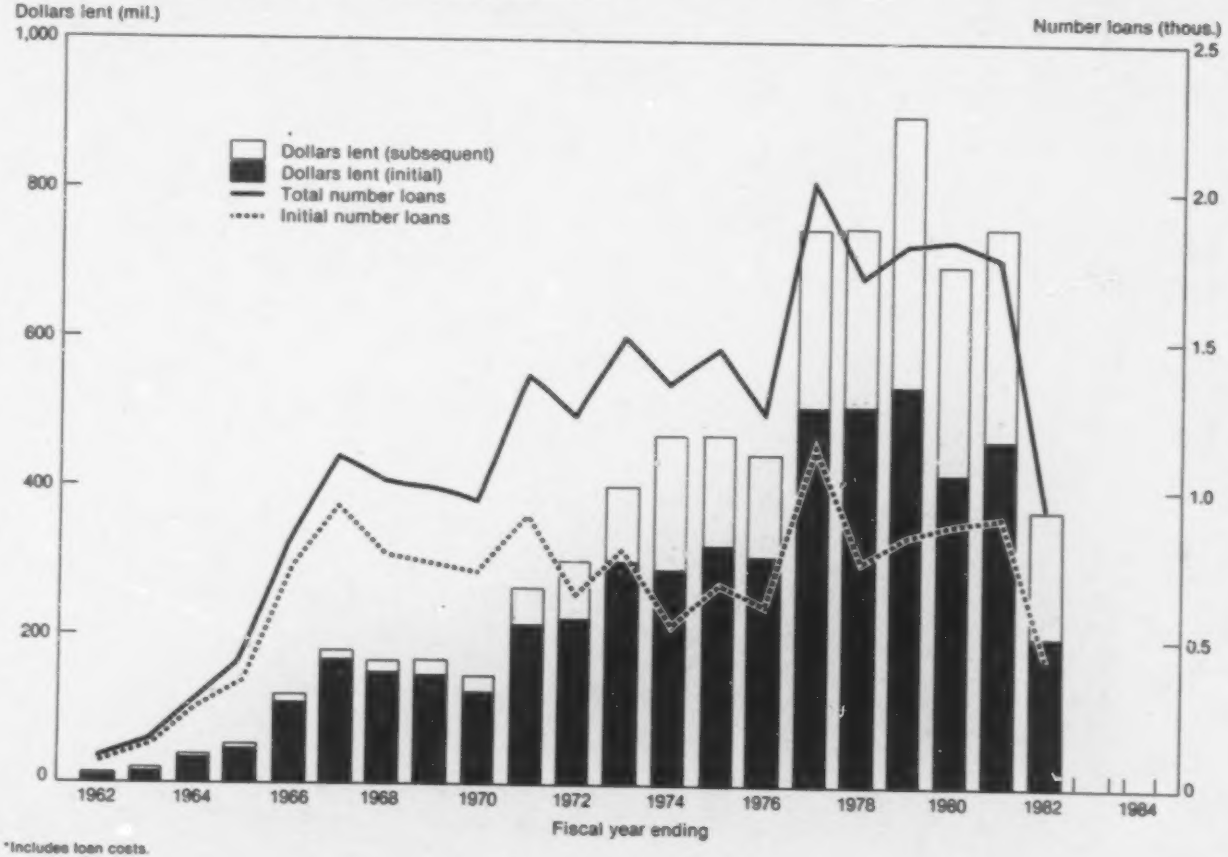
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1963	2	117,000	—	—	2	117,000
1964	21	1,148,600	1	18,000	22	1,166,600
1965	32	1,787,530	3	230,000	35	2,017,530
1966	76	4,165,770	5	141,400	81	4,307,170
1967	99	5,314,350	11	175,380	110	5,489,730
1968	276	12,427,010	21	748,890	297	13,175,900
1969	329	15,351,280	61	1,983,220	390	17,334,500
1970	412	24,148,230	98	4,292,510	510	28,440,740
1971	325	21,012,400	97	5,776,290	422	26,788,690
1972	372	21,502,910	143	8,614,970	515	40,117,880
1973	546	87,886,880	184	17,175,750	730	105,062,630
1974	562	140,663,110	317	32,650,920	879	173,314,030
1975	903	267,036,590	205	25,319,750	1,153	292,356,340
1976	685	213,992,470	153	17,209,680	838	231,202,150
1977	1,114	518,017,210	222	26,936,970	1,336	544,954.180
1978	1,056	627,442,260	410	48,502,290	1,466	675,944,550
1979	1,247	827,894,470	398	41,614,090	1,645	869,508,560
1980	1,204	841,524,090	335	39,812,050	1,539	881,336,140
1981	1,213	825,921,420	253	38,843,810	1,466	864,765,230
1982	1,220	928,339,980	208	25,327,740	1,428	953,667,720

* Includes Direct Loan Costs
Excludes Insured Loan Cost

(Table 10)

(Chart 11)

Water Waste Disposal Loans, Number of Loans, Dollars Lent*



*Includes loan costs.

WATER AND WASTE DISPOSAL LOAN PROGRAM
Number of Loans and Dollars Lent*

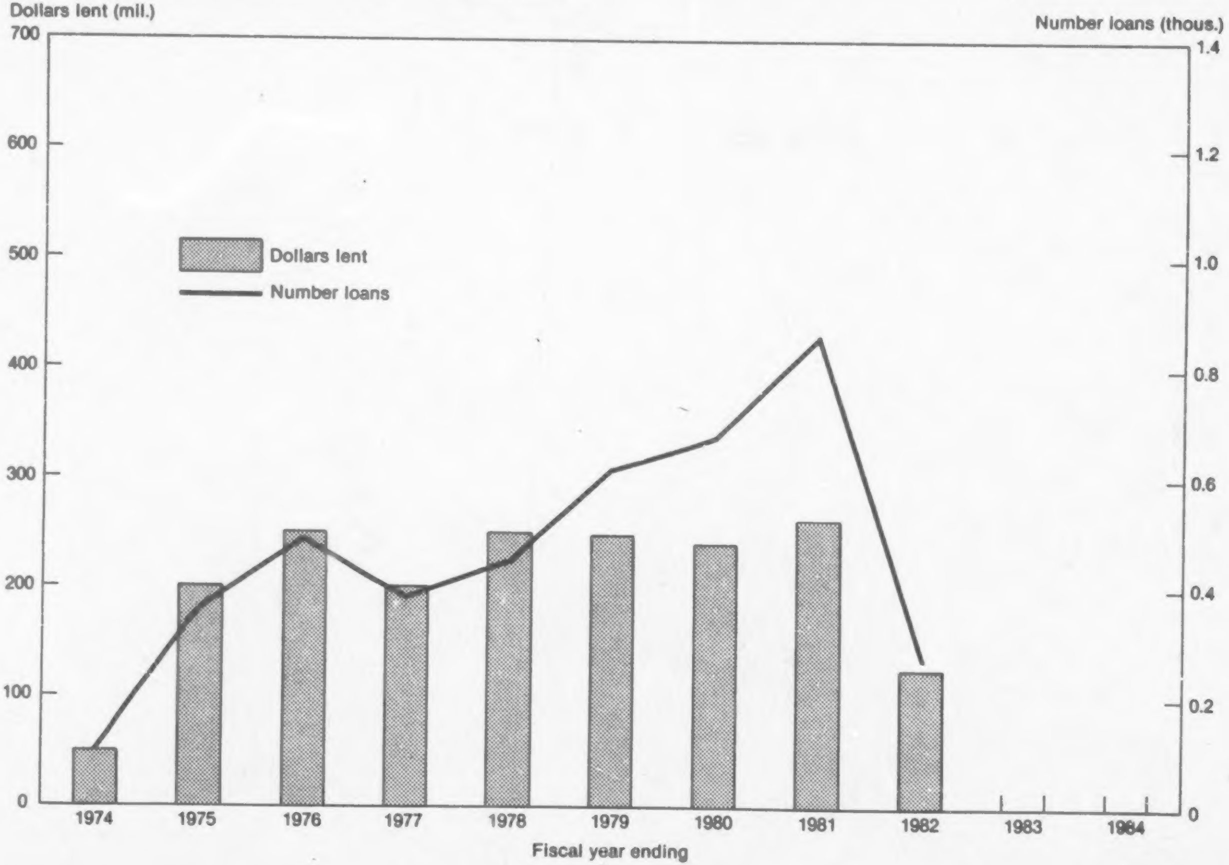
	Initial Loans		Subsequent Loans		Total Loans	
	Number	Amount	Number	Amount	Number	Amount
1962	69	$ 9,940,500	12	$ 230,500	81	$ 10,121,000
1963	114	13,876,565	21	864,130	135	14,740,695
1964	239	32,876,590	32	1,130,220	271	34,006,810
1965	324	47,982,510	70	2,406,970	394	50,389,480
1966	705	107,889,768	96	4,913,020	801	112,802,788
1967	915	165,206,014	174	9,967,165	1,089	175,173,179
1968	775	149,802,640	241	12,789,710	1,016	162,592,350
1969	739	147,036,310	242	17,610,850	981	164,647,160
1970	647	123,183,450	294	22,847,040	941	146,030,490
1971	899	213,092,800	468	48,611,100	1,367	261,703,900
1972	631	220,777,500	595	79,221,500	1,226	299,999,000
1973	768	300,182,500	734	99,812,300	1,502	399,994,800
1974	546	288,354,157	779	181,644,943	1,325	469,999,100
1975	658	320,188,646	793	149,798,300	1,451	469,986,946
1976	597	308,206,748	648	134,435,086	1,245	442,641,834
1977	1,097	508,238,060	951	240,612,370	2,048	748,850,430
1978	756	509,133,100	946	240,862,700	1,702	749,995,800
1979	823	537,351,830	979	362,648,090	1,802	899,999,920
1980	869	418,664,010	956	281,335,690	1,825	699,999,700
1981	892	466,061,480	876	283,938,500	1,768	749,999,980
1982	423	202,338,450	505	172,661,550	928	375,000,000

* Includes Loan Costs.

(Table 11)

(Chart 12)

Community Facility Loans, Numbers of Loans, Dollars Lent



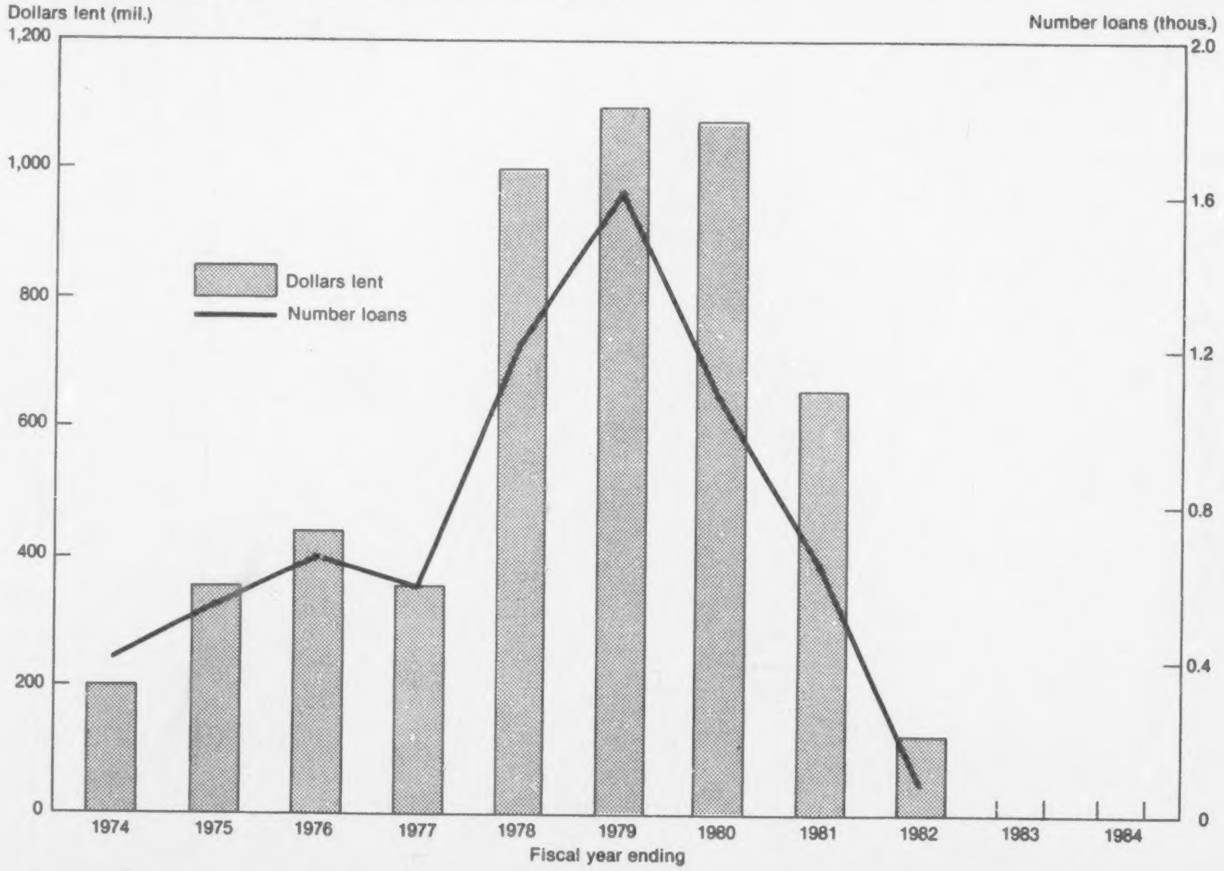
COMMUNITY FACILITY LOAN PROGRAM
Number of Loans and Dollars Lent

Fiscal Year	Number	Amount
1974	102	$ 49,830,700
1975	359	199,998,000
1976 & T.Q.	485	249,995,600
1977	382	199,980,800
1978	447	249,997,000
1979	615	246,998,620
1980	674	240,000,000
1981	862	260,000,000
1982	267	126,191,250

(Table 12)

(Chart (13))

Business and Industrial Loans, Number of Loans, Dollars Lent



BUSINESS AND INDUSTRIAL DEVELOPMENT LOAN PROGRAM
Number of Loans and Dollars Lent

Fiscal Year	Number	Amount
1974	399	$ 199,980,545*
1975	538	349,994,173*
1976 & T.Q.	663	437,498,741*
1977	584	349,987,010*
1978	1,213	999,978,030*
1979	1,609	1,097,376,903**
1980	1,160	1,073,766,920***
1981	638	652,280,250***
1982	74	125,077,575 (2)

* Amount obligated is based on total amounts shown on face of note for all guaranteed loans.

** Amount obligated based on 90% guarantee rate of the loan.

*** Amount obligated based on actual percentage of guarantee of total loan.

(2) Includes 5 loans for alcohol fuel conversion totaling $63,900,000.

(Table 13)

STATEMENT OF MR. SHUMAN

Mr. SHUMAN. Thank you very much, Mr. Chairman, members of the committee. I do appreciate the opportunity to be with you today to discuss the budget request of the Farmers Home Administration for fiscal year 1984. I will briefly highlight the major points in the budget and then be prepared to discuss in detail any specific parts that you wish.

As of the end of fiscal year 1982, the Farmers Home Administration had 1.9 million active loans carrying a total loan volume of about $59 billion in insured and guaranteed loans. We expect that this portfolio will increase to over $63 billion by the end of the current fiscal year.

As we enter the third year of this administration, we do so with a clear and firm commitment of limiting the role of the Federal Government in the daily lives of our people. We are going through a period of some economic uncertainties, but the outlook is positive, and those uncertainties are beginning to evolve into positive trends for individual Americans and the country.

FARM CREDIT SITUATION

This past year was not an easy one for many in the farming community. This year will also be difficult for some. However, I can tell you that we at the Farmers Home Administration have provided, and will continue to provide, credit to farmers and other rural residents who are unable to obtain sufficient financing elsewhere at rates they can afford. As a matter of fact, Mr. Chairman, as of March 31, we were 9,000 farm operating loans ahead of last year's loan-making pace.

Our policy for the past year has been to stay with the farm borrower who has made good faith efforts to repay a Farmers Home loan but who could not because of circumstances beyond his or her control, who practices good farm management, who took adequate care of any secured property, and who showed promise of success if a new operating loan were made.

We think we were successful. More than 97 percent of the 270,000 farmers who began the year with Farmers Home made it through the year. This year we are following the same policy, and we are willing to carry a farm borrower as delinquent if it appears a new operating loan and the interest on outstanding debt can be repaid from the year's production. Also, on a case-by-case basis, we are exercising the authority given to us to defer, reschedule, or reamortize loans where the need is evident and the promise of eventual success is strong.

Let me add that the private lending industry is cooperating in an excellent manner in serving farmers who have borrowed from Farmers Home in recent years. Last fiscal year, we enabled private lenders to make almost 30,000 such loans by subordinating Farmers Home liens on the property of the borrowers. The number of subordinations was more than five times that of the previous year.

One of the most encouraging signs for this year is the reduction in interest rates that has been made possible by the successful attack on inflation. These rates were reduced for the third time since last fall. A farmer today obtaining a $100,000 operating loan at 10.25 percent will pay approximately $4,000 less in interest than he would have paid 1 year ago. Mr. Chairman, I believe we have made some real progress in trying to meet the needs of our borrowers. The 1984 budget will enable us to continue that progress.

SUMMARY OF FISCAL YEAR 1984 BUDGET

For fiscal year 1984, we are requesting a program budget of just over $5.7 billion. This reflects two major emphases: Increased operating loans in keeping with the President's commitment to help meet the most crucial farm needs, and restructuring of certain housing programs in accordance with the objectives of the New Federalism program.

The budget does not include funds for several of the smaller limited purpose programs.

We are still guided by the principle that adequate income from farming with the least possible interference by Government is the primary goal of the Department of Agriculture.

For all farm programs, the budget includes a little over $4 billion. The principal focus is on farm operating credit which receives a significant increase over previous levels. We believe these amounts, coupled with the increased participation of the private credit markets, will be sufficient to meet the needs for production loans of our farmers. We are also requesting a strong farm real estate loan program that appears adequate and realistic based on last year's experience and the current farm real estate situation.

For the rural housing program, the budget contains just over $1.2 billion for a reordered approach which would provide to States the opportunity and the resources to manage their own needs for housing development and eliminate some of the duplication which now exists. This is a cornerstone of the New Federalism policy.

The rural housing insurance fund would require loan levels of $300 million to meet the needs of its programs in fiscal year 1984. An additional $850 million would be provided for block grants to the States to provide for subsidized rural housing as the States define their own needs. Another $62 million would be provided for renewal of rural rental assistance contracts.

The budget estimate for community programs is $440 million. This is somewhat below the current appropriation, but it is consistent with the return of decisionmaking responsibility to more local levels of government. This budget request should be adequate to supplement State and local efforts and to assist the poorest communities obtain basic community services.

We propose to terminate the guaranteed business and industry loan program and the guaranteed alcohol production facility loan program. These are programs that no longer need Government participation, and whatever loan needs exist can best be met by private investors.

The request for salaries and expenses includes an increase of about $20 million to provide staff to protect the Government investment in the agency's portfolio through increased servicing, debt collection, and credit counseling of our borrowers.

As Administrator, one of my major goals was to provide sufficient staffing at the local level to assure the proper supervision needed to strengthen the economic position of our borrowers. This increase in staffing, along with administrative changes within the Agency, will provide an additional 899 staff years in the county offices over the 1982 level.

Mr. Chairman, this concludes the general overview of the budget. I will be more than happy to answer any questions that you or other members of the committee might have.

Senator COCHRAN. Thank you, Mr. Shuman, for being here.

Senator McClure, do you have any questions or comments of Mr. Shuman?

FMHA SERVICING POLICY

Senator McCLURE. Thank you, very much, Mr. Chairman.

I am particularly interested in the Farmers Home Administration. I think we are having problems out in the field. I have a number of questions that I wish to ask and some that I will submit.

Let me, just by way of an opening remark, indicate that I know you have difficulties out there. Farmers are having difficulties, and you are dealing with a lot of marginal operations; therefore, you will have an abnormal amount of problem cases. I hope we can get into some questions of what your general operating philosophy is and, indeed, whether or not there are some things that might be done to alleviate conditions that I see.

Mr. Chairman, I appreciate the chance to participate this morning, and when we proceed with questions, I will have some to ask.

Senator COCHRAN. This is an appropriate time, I think, to go ahead and take one agency at a time and ask questions of them. Then we will move on to the next Agency.

Senator McCLURE. Thank you, Mr. Chairman.

Mr. Shuman, is there anything in the statute today that prohibits the agency from being able to permit somebody to sell off some assets and then apply that money to current operating loans, rather than the oldest obligation that you have?

Mr. SHUMAN. Senator McClure, I am not sure about the statutory requirement, but we do have some regulatory requirements that require that when the sale of basic security items is accomplished by a borrower, the return from that sale which is to be applied to the loan, be supplied to the back end of the loan rather than as current amortized payments. There is some discretionary authority to release proceeds for other purposes.

Senator McCLURE. I understand the rationale. During other periods of time that might, indeed, be the way it ought to be done.

Let's take a look now at some of those old loans that have low-interest rates and have been there for a long time. The operation is stable; the security is adequate; the cost of the current operating loan is very high, and the fellow who is operating can sell off some of the assets and still leave a sufficient equity to back up the entire operation. Why shouldn't he be permitted to use that asset to put him in a sound financial condition today?

Mr. SHUMAN. Depending upon the circumstances, we can, and do, release proceeds from the sale of these assets for other than payment on the loans.

There could be circumstances that would warrant this. We do have the authority to release these proceeds for various other uses, but if it is from the sale of basic security such as real estate, we want to see that the debt on that real estate is first retired.

LIQUIDATION TO PAY CURRENT DEBT

Senator McCLURE. I understand that, but what you are doing, as a matter of fact, is requiring the liquidation of some operations that could be continued in which you have plenty of assets left.

What happens, as a matter of fact, then, is the fellow falls behind. He has more than enough assets to back up his loan. He sells off some of those assets, but you are requiring him to first pay off the old indebtedness. Therefore, he cannot get an operating loan this year, and he is out of business.

If somebody else with the remaining base were to come in and ask you for a loan, he could qualify on the base of his remaining assets. But you forced him to liquidate.

Mr. SHUMAN. In that first instance, the farmer would be able to get a loan to continue his operation.

Senator McCLURE. He could get a loan, but he cannot pay off his current obligations, because he has to sell off some of his assets to make himself liquid, because he is falling behind.

Very frankly, there are an awful lot of farmers falling behind in today's operation. He sells off some of the assets—you have plenty left—but you require him to use the proceeds to pay off the old real estate loan. The result is he is out of business.

Mr. SHUMAN. He would not be out of business, Senator, if he could still continue to have a viable operation. We would continue to provide him with annual operating credit.

Senator McCLURE. He is delinquent on his current operating loans. He cannot catch up without selling some assets. He sells some assets, but you don't allow him to apply that on his deliquency.

Mr. SHUMAN. We would not require him to sell those assets.

Senator McCLURE. You don't require him to, but that is the only way he can cover his delinquency.

Mr. SHUMAN. I guess my point is, Senator McClure, that we are utilizing forebearance to the maximum extent where we would allow that individual to continue to be delinquent. In the example you cited, it would probably not be a good idea for the farmer to sell his assets.

Senator McCLURE. Well, as a matter of fact, the real estate loan upon which you would require him to buy it, bears a much lower interest rate than his current operating loan. He is still delinquent. He has sold off some of his assets, but instead of using that money to cure the delinquency, you require him to apply it on the old real estate loan. Then, you say I cannot give you another loan, because you are delinquent.

Mr. SHUMAN. No; that would not be the situation.

Senator MCCLURE. Well, it is. I can give you a case in point.

Mr. SHUMAN. I would sure like to look at the details in those cases. If the farm operation is viable, the delinquency would not be a consideration as to whether or not we would continue to finance that borrower.

Senator MCCLURE. He can only carry so much current operating loan. As for the delinquency, you cannot just pile it on top of the other. The point I am trying to make is I have one case that I know of in which his equity—and remember whenever a fellow goes under, the Farmers Home ties up everything in sight. I understand that. Generally, it is required, because if you didn't tie up everything in sight, he would probably get a loan from somebody else. But you tie up everything in sight, and the result is he has nothing that you don't control in terms of what he can do, what he can sell, or what he can do with the proceeds.

There is more than adequate security there to cover all of the loans that you have—real estate, operating loans, and so on. He is delinquent on his current operating loans. He cannot pay enough. You won't loan him more, because he is delinquent, but he can sell off some assets. He might sell off a part of the land and still have an operating entity, but the money is required not to cure the delinquency but to go on the old real estate loan, even though he is not in default on the real estate loan. You still have adequate security, but all of a sudden the fellow with another asset is put out of business.

Mr. SHUMAN. I think I should examine that specific case. Generally, we would never force a person to sell some real estate if we didn't think such a decision would make his operation more successful.

Senator MCCLURE. I am not talking about your forcing him to sell the real estate. I am talking about that being his option as a way of reducing his debt and curing the delinquency on a loan which is in delinquency status. The real estate loan is not delinquent, but the operating loan is.

I can point to more than one instance where that has happened.

Mr. SHUMAN. It is our policy to examine each such situation very closely.

REVIEW OF FMHA REGULATIONS

Senator MCCLURE. It seems to me that policy ought to be reviewed if in these circumstances, it has the effect of forcing some farmers out of business in tough economic times when they can stay in business. Your security would still be there, and you are not damaged in any way. It seems to me just to say it is policy—some of those fellows out there don't quite understand why they ought to go bankrupt just because of your policy.

Mr. SHUMAN. There is no question that our operating policy should not force anyone out of business. If a case is being handled in that way, then it is being handled improperly. I would like to take a look at the specifics in any such case.

Senator MCCLURE. How long has it been since you looked at your operating manuals to review the regulations?

Mr. SHUMAN. I personally keep a set right at my desk and look at them daily.

Senator McCLURE. 17 volumes?

Mr. SHUMAN. It is maybe more than 17 volumes, depending on how thick the looseleaf books are that you put them in. They are on several shelves right behind my desk. We do have a requirement in the Federal Government that we review all of our procedures periodically.

Senator McCLURE. How much authority does the State Director have to exercise discretion?

Mr. SHUMAN. It would depend upon the situation, Senator. He has quite a bit of discretion in some matters, and in other instances, his options are rather limited.

Senator McCLURE. How much authority does the county committee have?

Mr. SHUMAN. The Farmers Home Administration county committee deals primarily with determining the applicant's eligibility for a new loan. They also assist the county supervisor in making a determination when we have to deal with liquidation problems.

Senator McCLURE. If the county committee says one thing, and the local supervisor says another, who prevails?

Mr. SHUMAN. It is not a matter of who prevails, Senator. The county committee determines eligibility; the county supervisor or loan approval officer determines loan soundness, repayment ability, and adequacy of security. If a county committee says the applicant is ineligible, he is ineligible. However, the appeal process permits State Directors to reverse a county committee decision if it is found the applicant is eligible.

Senator McCLURE. If they say he is eligible, then what happens?

Mr. SHUMAN. We would accept and process the application.

Senator McCLURE. But not necessarily grant the loan?

Mr. SHUMAN. No; the loan approval official determines whether or not there is payback and whether or not there is viability in the operation.

Senator McCLURE. So the county committee is really a negative and not a positive. They can say no, you are not eligible, and that is the end. But if they say yes, he is still not in.

Mr. SHUMAN. They only test whether or not the applicant meets the eligibility requirements for entrance into the program, such as being a family-sized farming operation.

LOAN SERVICING OPTIONS

Senator McCLURE. Is it the policy of Farmers Home that the alternatives available to a farmer are given him—that he be told of what alternatives he has—or is it not your policy? There are an awful lot of different options available in the 17 volumes of regulations that you have.

There are a number of different things that a farmer might attempt to do in order to change his operation or to apply for different kinds of relief.

Is it the policy of Farmers Home to give the full range of options to the farmer applicant?

Mr. Shuman. It certainly is. In fact, we have been looking at all of our problem cases to determine whether the loan officer has utilized all of the authorities that he has available. It is not necessarily a requirement, though, that the borrower apply under any or all of those options. The loan officer should and does test these cases against all of the tools that he has available.

Senator McClure. Does he tell the farmer what options are available?

Mr. Shuman. We have certain requirements and certain formats that are utilized in explaining the program and the manner in which these loans are approved. Whether all of the very many tools that a loan officer has at his disposal are listed there, I don't know. You would have to have the whole 17-volume set presented to him to do that.

Senator McClure. What would be your attitude if, as a farmer, you are struggling against being forced out of business. Your income hasn't been sufficient to pay the service on the debt, and the county supervisor is saying, I am sorry; you are going to have to liquidate?

He says, isn't there anything else I can do? The supervisor says, no, nothing else you can do. Then he acquires information from some other source that there are some other alternatives that he might pursue with Farmers Home. He goes back to the county supervisor and says, I learned that you have the authority to do this, and the county supervisor says, well, that may be. He says, well, can I fill out an application to go that route? The county supervisor says, sorry, we don't have any forms.

Mr. Shuman. What I think you are referring to there are some problem cases in which the applicants want some specific servicing actions undertaken in their account. If the county supervisor was operating according to the regulations in these cases, he would have already tested those accounts, against all of the servicing options that were available. These would include deferral, rescheduling, reamortization, and whether or not it would be possible to continue to carry the account in a delinquent status.

All of those situations would have been tested and analyzed. Whether or not there was an application form for a farmer to apply for any one of the several different servicing actions is not the point. The point is, I think, whether or not the loan officer did consider all of those possible alternatives. This is what we require and train our loan officers to do.

Senator McClure. Mr. Shuman, that leaves all of the options, all of the initiative, and all of the discretion in the hands of the loan officer, and none in the hands of the farmer. Is that correct?

Mr. Shuman. I wonder whether the loans could ever be serviced any differently than that, because there are so many different options that can be pursued.

Senator McClure. Mr. Chairman, I don't mean to use all the time available this morning, but I am very concerned because in my judgment—at least from what I have seen in the field in my State—the loan officers are not doing what has been outlined. The farmer doesn't feel that he is being given an opportunity to apply for the things that might be done. All the discretion is in the hands of the loan officer. If the loan officer decides that farmer is through, he is through regardless of whether he wants to try any further.

We don't have enough personnel to service the loans. The loan portfolio-to-officer ratio is probably three times what a bank would have in trying to service their loans. Farmers Home is saying the loan officer tests all of these options. He doesn't have time to test all of these options. Right now, there is a 6-month delay in any housing application when you are going through the operating loan program phase of the year, which is from January through April.

If you happen to want a housing application during that period of time, sorry.

FMHA STAFF IN LOCAL OFFICES

The Idaho Falls, Idaho, office staff has been cut from 10 people to 5 in the last year-and-a-half. There is better than a 6-month delay in that office. They don't have the chance to go back and look at all of these hundreds of options. The result is that the farmer out there, in many instances, feels he is being totally left out of the process. He feels he has no opportunity to exercise various options that others might be able to exercise.

Mr. SHUMAN. Senator, I guess I would respond to that by first pointing out that we have requested funds for additional people to provide more staffing in the local offices.

Second, let me point out that if we ask each borrower to apply for each of the servicing options for which he might be eligible, we would have to do more than just train the county supervisors to be loan officers, we would have to ask the individual farmer to become an expert in that whole big volume of regulations. I suggest, Senator, that that is impractical. The best way to approach the problem, if we, in fact, do have a problem, is to have the county supervisors analyze the accounts and talk to the borrowers about the few options which might be best. We follow this up with a very effective appeal process where an individual case can be reviewed to determine whether all appropriate action was taken.

Senator McCLURE. He is out of business before he gets through the appeal. How about a young farmer, who is supposed to meet with the county committee in December. The county supervisor doesn't call a meeting of the county committee in December; he calls it in January. The committee asked the farmer for more information and for him to come back in February. He is delayed for 1 month to calculate that. He finally gets an approval in March, but it takes 6 weeks to get the paperwork. He doesn't get a loan until April. In the meantime, he is out of business.

Mr. SHUMAN. I cannot speak to that particular situation. There should be a county committee meeting every month, and the county committee should not have been asking for additional information. They only deal with whether or not the applicant is a farmer.

Senator McCLURE. I can give you a case history. I just recited one. I can fill in the names, the dates, the people, the persons, and the locations. That happened.

Mr. SHUMAN. Senator McClure, there is no question that some cases are handled improperly. We have some personnel problems, and we need to improve our training in some areas.

Senator MCCLURE. Three or four years ago, the administration decided it was time to help young dairy farmers get into business. One of the easiest things to do was to get into the dairy business. It was quick and easy. There were a great number of farming operations in the dairy business started during that period of time.

Now, we discover that we have a tremendous dairy surplus, and those very young farmers who were being encouraged to get in the business 3 or 4 years ago are now being forced out of business.

Is there a calculated policy to get rid of young dairy farmers, because we have a dairy surplus?

Mr. NAYLOR. No, Senator, absolutely not. Would you permit me to make a comment or two?

Senator MCCLURE. Of course.

Mr. NAYLOR. I would appreciate it.

OIG AUDIT OF FMHA LOAN SERVICING POLICY

I don't know if you have had the opportunity to read the Wall Street Journal today, but in the last couple of weeks, we have had two major audits by the Inspector General's Office dealing with our handling of loans and the types of loans made in 1979–80, during the last administration. The situation you described is a situation which should not have resulted in the farmer being forced out of business. In fact, our guidelines are such that the county supervisors advise a producer in their annual review of the general options available to them in trying to work their way through loan problems. If one is to accept the findings of those audits, the agency has gone too far in staying with the borrowers and using forebearance and servicing actions to keep these farmers in business.

If I might, Senator, I would like to read just one paragraph from the article this morning regarding this audit.

> The audit questions the legality of FmHA's highly publicized efforts to delay foreclosing on delinquent borrowers as long as possible. The report states that such policies are more liberal than Congress intended, contribute to the escalation in loan delinquencies and jeopardize millions of dollars of U.S. loans. Farmers Home and Members of Congress have been urging even more lenient treatment of cash-strapped farmers.

I would submit that while the Agency is far from perfect, and there are certainly individual cases that have not been properly handled, the facts show that we have compassion and that we have gone the extra mile with every borrower possible. We were faced with literally thousands of loans when we came into office that should not have been made. Some of them were not adequately collateralized or were not adequately supervised. In some cases, there is no way to pull them through.

We are saving many more than we are losing through a very conscientious effort on the part of the personnel in the Farmers Home Administration. It is not an easy course to walk. This article points up the dilemma we find ourselves in today. On the one hand, we are being criticized for not being compassionate enough. On the other hand, those who audited the program complain that we far exceeded what we should have done in understanding and working with the borrowers.

I think the truth probably lies in the gray area in between, as it so often does. We are doing the very best we can. If there is any reasonable chance that a producer will be able to make it, we will stay with him. We will find a way to stay with him, and we intend to continue to do that. The President has directed us to follow this policy, and we agree.

We intend to monitor cases where our personnel have not exercised the available authorities or perhaps where good judgment was not exercised. We try to put those cases right. We often find, as I am sure you are aware, that some of those cases are not black and white. The situation described to you by the borrower is somewhat different than the actual circumstances. We are more than happy and solicit your assistance in identifying cases that have not been handled properly. I can assure you that we will not drag through long appeal procedures. These cases are not large in number, but where they occur, they deserve quick action.

Senator McClure. Mr. Naylor, I appreciate what you say, and I think there is a great deal of truth in what you say, but there is a great danger that in the averages we overlook some circumstances that don't fit what you have just described. It doesn't always happen that way in the field for one reason or the other, no matter how you may feel, no matter what the audit may reveal.

How about a young dairy farmer who is not delinquent to FmHA. He has made private arrangements for some of his needs, and he has seed suppliers to carry his indebtedness another year. They say that is fine with me; we know you are having a tough time. He is not delinquent to FmHA, and he has made all his payments to FmHA. FmHA says, sorry, we don't think you can make it; you are out. I can understand that that is borderline, because maybe his farm plan does not indicate a cash flow that will allow him to service those debts next year, even if the operating loan is made.

But is that a decision that FmHA ought to make unilaterally? Should FmHA say to other creditors and to the farmer, we don't care if you made your own arrangements, our judgment is you cannot make it, so you are out?

Mr. Naylor. Senator, I would like to have Mr. Shuman review the details of this particular situation. The case, as you described it, simply would not occur.

Senator McClure. It has occurred, and I will give you the names.

PROFILE OF UNSUCCESSFUL BORROWER

Mr. Naylor. The profile of a borrower we actually have lost is much different than that. The people who actually have had to go out of business typically have not paid anyone for 2 to 3 years. They have improperly sold off collateral, and they have not managed their operation well. These facts are generally recognized in the community.

The profile of the people who have actually gone out of business is one that we would agree should not continue in operation. The circumstances which you described should not have resulted in anybody being put out of business. Certainly, we don't put people out of business who are current on their borrowing unless there are some very strong additional circumstances.

Senator McCLURE. Mr. Secretary, what you say is not true. You can believe it, but it is not true. It is happening. It may be an aberration; it may be an exception, and it may be against your policy. Maybe you don't know it, but it is happening.

I have seen some of those other people, but they are in so deep they would never get out. They have come in and asked me for help. We looked at them and said, gee whiz, there is no way you can get out.

I have seen some highly publicized cases where somebody else was doing something on behalf of a farmer and said, I wish you wouldn't say anything; I really need to get out, and they wish to get out.

I am not talking about those. I am not talking about the 97 percent of the time there are no problems—you do it correctly. I don't want what I say to obscure the fact that in the main you are correct. That most of the time, in the great bulk of the cases you are right, but there are some cases that simply don't fit what you have described here today, and I have described a couple of them.

How about the farmer who goes into his supervisor and says that he needs to buy a new piece of equipment, and the supervisor looks at his file and says, yes, I think you need that new piece of equipment. He goes down to the implement dealer and buys it.

At the end of the year, when he goes to pay the equipment dealer, the supervisor says, I'm sorry, but we need that money, and we come ahead of that equipment dealer. If it is just one or two cases, you might understand that, but when the equipment dealer comes in and says, I have my lot full of cases exactly like that—where the supervisor said, go ahead and buy it. When it came time to pay me for it, they said, no, turn it back to the dealer. The dealer is going bankrupt as a result of actions taken, again, exceptional perhaps, but actually happening. This is not simply a case of one farmer telling me a hard luck story. These are cases that are corroborated by cross checks from several different cases to see if the pattern is there. I've learned of some independently from different people, different towns, different times, and different meetings. Either they have done a fantastic job of putting their stories together, or there is factual background to support what I am saying.

Mr. NAYLOR. Senator, I have no question that with 2,000 offices and 12,000 employees, there certainly are cases that are not handled properly. It has been our experience that when such cases are examined, the truth turns out to be in the gray area between what the report is and what really should have been done in that case. I think it is absolutely important, and we make every effort to maintain our own monitoring system to identify these kinds of cases and act on them to assure that the borrower is treated justly.

We have also solicited, and we will continue to solicit, your assistance in bringing those specific cases to our attention. We then can send senior loan officials in to determine whether a local office is conducting itself according to policy. It is very difficult for us to sit here and without looking at those files advise you whether or not the information supplied to you is wholly accurate or whether there are circumstances you may not have been made aware of relating to the case. I can think of a couple of dairy cases in your State where the investigative teams turned up different facts than what had been reported to your office. That doesn't lessen our responsibility to make efforts to try and help that individual and to correct any error we have made.

Senator McClure. Mr. Chairman, I am sorry to have taken so long. It is a matter of extreme urgency to some of those farmers who might receive aid but cannot. Again, I want to emphasize that the majority of the cases have been handled the way you describe it. The great majority of the loan applications are not problem applications. They are handled correctly, and the personnel involved have done a good job. I don't want to overgeneralize, but I can point to specific instances that seem to me bear some investigation, both on policy itself and the application of that policy. I just don't understand why, if a person has adequate security and must in every instance—let's say, if you sell off some of that security and your security still remains ample, why can't you clear the delinquency on your operating loan rather than apply the proceeds of that to the earliest indebtedness that you have.

It seems to me there is a reason to make a variation in that case. If your policy says you cannot, then I think the policy is wrong. I would like to work with you in trying to cure some of that.

Mr. Chairman, I have additional questions I would like to submit for the record, if I may.

[Clerk's note.—Senator McClure's further questions appear on pages 414–16.]

Senator Cochran. Those will be submitted to the FmHA, and we would appreciate the agency's prompt response to the written questions.

ALCOHOL PRODUCTION LOAN PROGRAM

Senator McClure. I would also like to indicate at some point that we ought to support the alcohol program for a variety of reasons. I note that support is lacking. This country is still dependent upon imported supplies of energy. Farmers are still dependent upon inadequate markets for their produce.

It seems to me there are some very cogent reasons to support the use of on-farm produce for energy. That support seems to be lacking when you say that the alcohol program doesn't need any help anymore.

Senator Cochran. Thank you, Senator.

INTEREST RATE ON REAMORTIZED LOANS

Senator Burdick, do you have any questions of Mr. Shuman and Mr. Naylor in connection with the Farmers Home Administration?

Senator BURDICK. I have one or two here.

Thank you, Mr. Chairman.

Mr. Shuman, about 1 year ago we were here in a similar hearing talking about interest rates you were charging on reamortized loans. At that time, you said you were in the process of developing a policy. I understand last July the FmHA issued proposed rules that would have allowed FmHA to charge borrowers interest at either the current rate or at the original interest rate.

What has happened to this proposal, and what is your current policy?

Mr. SHUMAN. The July publication of those proposed regulations was for public comment. Those comments are being analyzed and are being discussed within the administration in addition to the impact of what costs those regulations might have. I would point out that since we talked 1 year ago, interest rates have declined dramatically. Therefore, the urgency to have that type of regulation in effect is not nearly as severe now as it might have been at that time.

In fact, we now find that reamortizing or rescheduling most of our borrowers' accounts does cause those accounts to be rescheduled with the current interest rate which is lower than that of the original loan. Because of the tremendous reduction in interest rates, we are now better able to deal with the problem that we discussed 1 year ago.

Senator BURDICK. But you are still considering it?

Mr. SHUMAN. It is still being discussed and considered within the administration, Senator.

FISCAL YEAR 1983 PROGRAM LEVELS

Senator BURDICK. What are the current fiscal 1983 funding levels for the farm operating and farm ownership loan programs? Are funds for these programs adequate to meet the remainder of this fiscal year?

Mr. SHUMAN. The insured operating loan program for fiscal 1983 is $1.46 billion. We divide that allocation up by quarters. March 31 was the ending of the second quarter, and we ended that quarter utilizing just about down to the penny the dollars that we had available in those two quarters.

We are now just starting the third quarter. There is at this time approximately $315 million available for the third quarter. We are monitoring the situation very closely to see what the needs will be.

Last year, we were in the same situation. What we actually utilized came out within just a few percentage points of our budget estimates.

If there is a good luck charm, I would like to rub on it. Some States have used their allocations from the third quarter, and we have moved up their fourth quarter amounts.

Senator BURDICK. In other words, you are telling me there is no shortage of funds at this moment.

Mr. SHUMAN. At this moment, as I said, we have moved funds from one quarter to the other. There are some States that may have utilized all of their normal third and fourth quarter allocations, but nationwide, we have about $315 million left for the third quarter.

LIMITED RESOURCE LOANS

Senator BURDICK. I believe the law now says that no less than 20 percent of these loan funds are to be reserved for limited resource loans to low equity or beginning farmers and that these loans should be made at a rate of 3 percent below the regular interest rate.

You are aware of that; are you not?

Mr. SHUMAN. The fiscal year 1983 appropriations act provides that up to 20 percent of the loan levels for farm ownership loans and for farm operating loans must be used for reduced interest rate loans to limited resource borrowers.

Senator BURDICK. What are you recommending in fiscal year 1984 for the farm operating and farm ownership programs, and do you intend to continue the practice of providing at least 20 percent of the funds for these limited resource farmers?

Mr. SHUMAN. The 1984 request, Senator, asks the Congress not to set up that differential between a limited resource borrower and our regular borrowers. We feel that there are resource problems of some kind with every Farmers Home Administration eligible applicant since none of them can get adequate credit elsewhere. To identify one particular applicant as more limited in those resources than another is not appropriate. We feel that the overall assistance that the agency can give through generally lower interest rates, longer terms, and the ability to finance up to 100 percent of the appraised value, are adequate tools to provide assistance to all Farmers Home Administration borrowers.

Senator BURDICK. But the congressional intent, as the law now stands, is to the contrary; is it not?

Mr. SHUMAN. The present statute recommends 20 percent for limited resource in those programs. We are asking that the Congress change that statute in 1984.

Senator BURDICK. But until it is changed, you will abide by the law; won't you?

Mr. SHUMAN. We certainly will, Senator.

Senator BURDICK. Many of the letters and phone calls I receive indicate that many farmers do not know about the limited resource program.

What specific efforts have been made to insure that farmers and prospective farmers are aware of it? Are the county supervisors instructing the borrower, and how do you account for the fact that the neighboring State of South Dakota used almost all of its allotment of the limited resource fund while neighboring North Dakota used 19 percent? This is 19 percent of the eligible borrowers, as I understand it.

What is the difference in administration?

Mr. SHUMAN. The allocation is provided to the States at 20 percent of their dollar amount, so if one State used all of its allocation, that meant it used approximately 20 percent of the loan level provided. If another State only used 19 percent, it came within 1 percentage point of fully utilizing those funds.

Senator BURDICK. We are talking about the use of the allocation. I understand South Dakota used 87 percent of their allocation.

Mr. SHUMAN. Eighty-seven percent of the 20 percent.

Senator BURDICK. That is right.

Mr. SHUMAN. OK.

Senator BURDICK. Why is there a distinction between North and South Dakota, for example, one using 19 percent and the other using 87 percent.

Mr. SHUMAN. We find that there are differences of varying degrees from State to State in the type of loan applications that we receive. The types of farming problems that borrowers are faced with also vary from State to State. We find many different reasons why there may be a higher utilization of limited resource funds in one State than in another. One situation, I know, that differs from county to county is the number of applicants who are just getting started in farming. We usually have a higher percentage of limited resource loans in those States. We also have other special programs that assist new farmers in some States, and these special programs reduce the need for limited resource funds.

Senator BURDICK. I understand the differences in States, but here are two States back to back with similar types of agriculture, similar types of economy.

One goes 87 percent to the program; one goes 19. There isn't that much difference in the two States.

Mr. SHUMAN. Again, Senator, I would have to analyze the difference really carefully, and I will be glad to do that for the record.

Senator BURDICK. Yes; I wish you would. I would like you to provide me with the record number of limited resource applications submitted and the number denied in North Dakota in 1980–82 and how these numbers compare with similar States.

Mr. SHUMAN. Yes; we will provide the information that we can, Senator.

Senator BURDICK. I would like you to provide me with the number of limited resource applications we have in North Dakota.

Mr. SHUMAN. Senator, under current procedures, a limited resource loan is made where the individual applicant meets the test. The farmer himself does not have to make specific application and decide himself whether he is an eligible limited resource applicant.

Senator BURDICK. Can you also explain why instructions provided to county supervisors in North Dakota indicate the FmHA can loan up to 20 percent of the State's operating and ownership loan applications for limited resource borrowers when the law states the application is not restricted but that no less than 20 percent should be provided to the limited resource program.

Has that been made clear to the county supervisors?

Mr. SHUMAN. I think the State offices clearly understand that 20 percent of their operating loan funds should be reserved for limited resource borrowers. I think there is no question about that, Senator.

[The information follows:]

USE OF INSURED FARM OWNERSHIP AND INSURED OPERATING LOAN FUNDS

Insured farm operating and insured farm ownership loan funds allocated to North Dakota and South Dakota in fiscal year 1982 were used as follows:

North Dakota received initial allotments of $22,800,000 for insured farm ownership loans and $33,920,000 for insured operating loans. They requested additional insured farm ownership funds and obligated a total of $32,225,290—a total of $9,425,290 above their initial allotment. $996,850 of the insured operating loan funds were not obligated.

South Dakota received initial allotments of $21,500,000 for insured farm ownership loans and $40,410,000 for insured operating loans. They requested additional insured farm ownership funds and obligated a total of $26,960,000—a total of $5,460,000 above their initial allotment. Only $23,600 of the insured operating loan funds were not obligated.

Limited resource loans are not a separate program authority. Limited resource interest rates are a feature of the insured farm ownership and insured farm operating loan authorities. All loan applications are first processed predicated on the regular rate of interest. If the plan will not cash flow it is reviewed to determine if the applicant meets the limited resource criteria and the plan can show soundness at the limited resource interest rate.

We believe applicants should pay the regular cost-of-money rate if they are able to do so. Limited resource interest rates are not made available to applicants who have adequate resources but cannot pay the regular rate because they are over capitalized.

The table below compares the States of North Dakota and South Dakota with the national percentage of insured farm ownership and insured farm operating loans used for limited resource borrowers in fiscal year 1982.

Loan	National	North Dakota	South Dakota
Insured farm ownership	22.9	16.1	24.9
Insured farm operating	11.9	4.2	20.6

In fiscal 1982, we note that North Dakota approved 359 initial insured farm ownership loans and 204 subsequent insured farm ownership loans while South Dakota approved 274 initial insured farm ownership loans and 165 subsequent insured farm ownership loans. North Dakota also approved 749 initial insured operating loans and 716 subsequent insured operating loans while South Dakota approved 825 initial insured operating loans and 914 subsequent insured operating loans. Since the limited resource rate is applied on a case-by-case basis, it is difficult to determine the cause for differences in these two States, but we are confident the authority is being properly administered. We will look into the apparent imbalance between the two States and determine if action is needed to correct any inequities which may exist.

LOAN APPEAL PROCEDURE

Senator BURDICK. Let's talk about the appeals procedure within the Farmers Home Administration.

For example, if a farmer receives an acceleration notice on a loan, what process or what avenue can the farmer follow after he received his notice? What is the hope that is left?

Mr. SHUMAN. Senator Burdick, the acceleration notice is only utilized by Farmers Home Administration to call the loans, to accelerate the accounts, when we feel that the account has been tested using all of the tools and authorities that are available to the agency. Acceleration notices are sent out only at the very end of the servicing process. The farmer who receives an acceleration notice does have the right to appeal that decision as he does any other earlier adverse decision that might have been made by the Farmers Home Administration.

Senator BURDICK. Who does he make the appeal to?

Mr. SHUMAN. The appeal would be made to the Farmers Home Administration. He could present it verbally or write a little note to give to the county supervisor immediately upon receipt of the acceleration notice or receipt of denial of a loan or other adverse action.

Senator BURDICK. The problem, though, is he appealing to the same person who made the decision?

Mr. SHUMAN. The appeal is taken at the next higher level from where the decision was made. For instance, if it was an acceleration of chattel properties, that acceleration decision is normally made at the local level. That appeal would go into the district or the State office. If it is a real estate loan involved in acceleration, then that might have been made at the district office and have to go to the State office for a hearing.

Senator BURDICK. When a farmer receives this acceleration notice, is he advised or is the office instructed to advise him of this appeal process?

Mr. SHUMAN. They certainly are. We have an insert that goes with the notice of adverse decision which describes the appeal rights of the individual.

Senator BURDICK. Thank you very much.

RURAL ELECTRIFICATION

I wonder if I can ask Mr. Hunter one question?

Senator COCHRAN. Sure, go ahead and proceed, Senator.

Senator BURDICK. Do I still have a little time?

Senator COCHRAN. That is fine.

Senator BURDICK. Mr. Hunter, we met last week about a problem in one of the North Dakota REA cooperatives.

Can you tell me how we are doing with our loan request?

Mr. HUNTER. Senator Burdick, we hoped we would have a decision before today. As it happens, we don't have all the details in hand. I feel certain you will be satisfied and that the matter will be treated fairly.

As you know, as we talked about this in that meeting in your office, our people had voluntarily approached the borrowers early. The date supports that. How we treat it will be to try to get down to specifics of exactly what details of cost should be included.

Senator BURDICK. Mr. Chairman, inasmuch as Mr. Hunter said I will be satisfied, I think I will quit.

Senator COCHRAN. Thank you, Senator Burdick.

AVAILABILITY OF OPERATING LOAN FUNDS

Mr. SHUMAN. Mr. Chairman, I would like to clarify something we discussed awhile ago. When I indicated we had approximately $315 million left for the third quarter for our annual operating loans nationwide, I should have indicated also that there are a number of States where the loan-making process is running substantially ahead of earlier estimates, and we had authorized them to approve loans to the full extent of their annual allocations. Seventeen States have used about all of those allocations as of the present time. We are discussing, within the administration, the appropriate steps that we need to take to deal with that situation.

Senator BURDICK. Do I understand there are 17 States out of money?

Mr. SHUMAN. There are 17 States, Senator Burdick, that have used all of their annual allocation. However, there is $315 million left to go for this quarter in the fund, and we are now determining what steps we need to take to assure continued financing in those States. We may have to do some reallocation from State to State, or ask those States that are out of funds to delay or postpone some loan making, or stop processing until the situation can be resolved.

Senator COCHRAN. Following up on that point, Mr. Shuman, it has been a matter of serious concern to me, and I am sure to other members of this committee, about whether or not loans are being processed, and applications are being handled in a timely fashion so that farmers who need money now to finance this year's crop can expect to receive the money promptly. There has been a suspicion of intentional footdragging in this area because of either a shortage of operating loans or an inadequate number of personnel to handle the applications. Some farmers feel they are intentionally being given the runaround; perhaps, in hopes that instead of having to be foreclosed, some of them just won't come in and ask for money, or that they will just give up and let this year's crop go by without even trying to continue to farm.

What is the real story on that? Is it a combination of factors? Why is there such a delay this year in the handling and processing of loan applications at the local level?

Mr. SHUMAN. Mr. Chairman, as a matter of fact, this year we are substantially ahead of processing farm operating loans compared to last year. Last year, we completed our lending nationwide considerably earlier than we had ever done before. Our applications started coming in earlier this year, and we were able to schedule our response to those applications in a much more timely fashion than we have ever been able to do before.

I must admit that it still takes us a lot longer to respond to an application than would be the ideal situation, but we definitely are not trying to delay or drag out the time. In fact, our emphasis has been just the opposite, that is to speed up the processing and to get the decision made as quickly as we possibly could. We are trying to look for additional ways in which we can speed up the process even more. As an example, as of March 31, 1982, we had obligated 23,260 operating loans. By the end of March of this year, we had obligated 32,264 loans. So we are about 9,000 loans ahead on processing operating loans this year compared to last year at the same time.

FMHA STAFF LEVELS IN LOCAL OFFICES

Senator COCHRAN. Isn't it true that in many of the offices at the local level, you have a shortage of personnel, and that is why we included $6.5 million in the emergency jobs bill to hire 500 new people to help staff these offices and to process the applications?

Mr. SHUMAN. Mr. Chairman, I am not that familiar with the reasons for the numbers in the jobs bill, but the administration has recognized the need for Farmers Home Administration to have additional people.

We are increasing staff in the local offices. By the end of fiscal year 1984, we will have about 900 more people in the county offices than at the end of fiscal year 1982.

Senator Cochran. Why was the cutback made in the first place? That has baffled a lot of people in my State. In some counties where you have a heavy volume of loan applications to process, housing programs to run, and other water and sewer system loans and grant applications to process, 2 years ago you would have 10 people in the local office; now there are only 3.

Senator McClure pointed out that in one of his offices in Idaho, there used to be 10 people working there, and now there are 5. I don't understand how that jibes with the 5-percent increase in personnel in Farmers Home over the past year. That is what your statement says has happened, and that is what information I have heard says has happened. Where are these people going? Are they all here in Washington? Where are they?

Mr. Shuman. In fact, Mr. Chairman, we have reduced the number of people on our Washington staff significantly since 1981. It is true that our current staff is below the level of fiscal year 1981. However, this is because of the unusual natural disasters which occurred during that period and the resulting $6.4 billion emergency loan program. When a disaster occurs, we are allowed to expand our staff and hire additional people to take care of those emergency loan applications. In years when we have had substantial disaster lending and years following the disaster when high follow-on disaster loans are made, we go outside our regular authority and hire emergency loan temporary employees. When we have less of a requirement in the emergency loan program, our overall staff level recedes to something like its previous level. We do not have as much work for those individuals to do, because we don't have the emergency loan applications to process.

When you look at the Farmers Home Administration's program, you have to separate out the emergency loanmaking activities of the Agency and the people we put on board to take care of that workload. Staff to conduct our regular programs are approved through the appropriations process. So, as our emergency loanmaking activity drops, then our number of emergency loan employees drop. You may look at a county office that may have seven people in it this year and three people in it next year. In fact, as I know that was the case in some areas of Mississippi, Mr. Chairman, those changes are due to a reduction in the emergency loanmaking activities. In many instances, you can't put an emergency loan officer in a location where he is going to be used exactly 100 percent of the time for making emergency loans. Nor can you increase the staff in the adjoining county office where there is not enough emergency loan activity to justify one additional person. What you have, therefore, is a mix of some regular permanent employees taking care of emergency loan processing in one office, while in another office the emergency loan officers are doing some ongoing loan work. Under our current regulations, emergency temporary employees can do regular activities up to 25 percent of the time. We have to manage our workload under those regulations.

LOANS EXPECTED THIS YEAR

Senator COCHRAN. Do you have any figures right now that indicate how many Farmers Home borrowers have had their applications approved and can expect to obtain financing through Farmers Home this year? What are the latest figures you have?

Mr. SHUMAN. As of April 6, Farmers Home had set up the accounts for 32,898 operating loans.

Senator COCHRAN. Do you have a figure that indicates the total amount of operating loan money that that represents?

Mr. SHUMAN. Yes; it represents $1,037,418,000. Mr. Chairman, keep in mind that this represents the loans that have completed the application process. We have many applications that are still in process in the county offices. Those applications are then acted on and sent to the finance office for setting up the loan account. The numbers I just gave you are the ones that have been finalized.

Senator COCHRAN. Let me ask you this question: In September 1982, according to a letter that you submitted to me as chairman of this committee in response to our report on our bill for 1983, there is an indication that there were 270,209 active farm program borrowers. If you subtract from the 270,209 pool of borrowers, 32,898 active borrowers whose applications have been processed to the point where you have identified them as eligible and then take into consideration the $1.037 billion earmarked for those loans, what is going to happen to the remaining 237,311 borrowers whose applications haven't been processed?

Mr. SHUMAN. Mr. Chairman, first what you are doing there is comparing annual operating loans with our total number of farmer borrowers. The 270,000 includes many borrowers who have primarily real estate credit. Last year, we only made about 45,000 annual operating loans. We may make about the same number of operating loans this year as we did last year, but I have no way of knowing what the situation will be. We have about 12,000 operating loans to go to reach that level.

SUPPLEMENTAL FUNDING

Senator COCHRAN. What is going to happen if you assume you failed in your efforts to get additional funds allocated to these 17 States where all the operating loan money has been exhausted? Are you asking now that OMB give authority to submit a supplemental budget request to help get through the balance of this fiscal year?

Mr. NAYLOR. Mr. Chairman, we are having discussions within the administration, including the Office of Management and Budget now, regarding the need for an additional amount in the operating loan line item. The other farmer program line items still have adequate funds available. The alternatives are under discussion. When the administration completes its review, which obviously has to be very soon in order to avoid a problem, we will advise you of the decision whether or not to ask for additional funding. At the present time, there are 17 States which have exhausted all of their entire year's allocation of funds.

That is not unusual, because these are spring crop States, and all the money is needed during the early part of the year. We have placed a temporary hold on those until that question is resolved, and we will advise you and your committee as promptly as possible of the decision of the administration.

Senator COCHRAN. I would certainly hope that you would advise us in a timely fashion, so that we would have an opportunity to process a supplemental request. We assured farmers in the hearing that we held in this room last year that the budget request that was being submitted to the committee was sufficient to provide operating loans to service all Farmers Home loan borrowers. I think that is a commitment to Farmers Home borrowers that has to be kept. I feel very strongly about that, and I hope the administration does also. I know that you do, and I know that Mr. Shuman does. I hope the Office of Management and Budget has a representative here, because we want some action soon to insure that adequate funds are available to service that program.

Let me ask you this. If you are not able to submit a supplemental request, is there a possibility that there could be a reprograming of funds? Is there a procedure for that within the administration or within your Department?

Mr. NAYLOR. Unfortunately, the way the appropriation is written, Mr. Chairman, it is unclear whether this particular line item is reprogramable. There are other areas, like the emergency lending programs, where we have funds that are not yet utilized or have authorization for additional funding, but they are not transferable. I think, as we discussed before, the President and the administration have been quite concerned about this area. We have increased by well over 50 percent the amount of funding for operating loans since this administration took over and will more than double that level if this year's budget request is approved. This is a major commitment to the operating loan area.

We have had a significant shifting in loan categories this year which has resulted in a higher-than-expected demand in the operating loan area. At the same time, there has been a significant dropoff in the total funding requirements in the disaster loan area principally because we have not had the type of disaster situations we had in earlier years. We are monitoring the situation very closely, and we are working with the administration in reviewing the requirements and the actions that need to be taken.

ECONOMIC EMERGENCY LOAN AUTHORITY

Senator COCHRAN. You are aware of another very serious concern of mine. While we haven't had any natural disasters that would compare with previous years, we have had a marketing disaster and a credit crisis facing farmers in my State and, I believe, throughout the country. The market prices have fallen in many cases in most of the major commodity areas below the cost of production. We have also seen debt build up on farms, and the equity is just gone in a lot of those farming operations.

I wonder, if that doesn't justify the situation as being a true emergency. I think we are faced with an emergency. Mr. Shuman mentioned that when we were handling an emergency situation, we had additional staff available to handle emergency loans. Well, I think the situation is just as critical now, more critical now than it has been in the last few years. Why can't the administration open up the economic emergency loan program, for instance?

Mr. NAYLOR. First and foremost, that program has some very basic flaws. The Inspector General's Office has repeatedly called to our attention the improper use and problems related to that particular program. Aside from our opposition to that program because of that particular problem, we have not felt that there is any real lack of credit availability. The commercial sector and the farm credit system have had no shortage of money. They have been able to meet their pending requirements. We have met ours, up until this moment. We understand the responsibility we have in this area, and we intend to do the best we can to meet the credit requirements that are out there.

Certainly, the lending financial sectors in agriculture, both commercial and Government, have made every effort to see that adequate funds are available. The principal problem, I think, is not so much the economic emergency loan program itself, but certain eligibility requirements and loan size problems. We have made recommendations in our reauthorization act proposal, and you, also, have made some recommendations which address those particular problems. Our recommendations would largely eliminate the need or rationale behind the economic emergency program.

OPERATING LOAN LIMITS

Senator COCHRAN. I really think that what we are finding is that we are operating a loan program under outdated loan limits. We are not taking advantage of an economic emergency loan program that might help satisfy some of the real needs for credit that exist out there. We need to help permit some farmers to continue to operate this year who may well have an opportunity to work their way out of this debt load if they were given a long enough time to make a payback on their loans.

For instance, how long has this $100,000 operating loan limit been in effect under the Farmers Home program?

Mr. NAYLOR. Mr. Chairman, the operating loan limitation was increased to that level in 1978. We have in our legislative request that the limit be increased again to reflect the current situation.

Senator COCHRAN. So, it is fair to say that that limit on an operating loan has been in effect for the past 5 or 6 years. Would that be correct?

Mr. NAYLOR. Yes, Mr. Chairman, the last adjustment was made in 1978.

Senator COCHRAN. And the terms for paying back a loan, under the time established by law or under your regulations is 7 years? Is that the maximum length of time a farmer has to pay back that loan?

Mr. NAYLOR. Yes; although we have some rescheduling authority that can extend a loan term, the basic law currently says 7 years. I know that you have had this particular provision under consideration. There is some merit in considering whether that time should be lengthened.

INCREASING FARM DEBT

Senator Cochran. The point I am making is that since last fall, when it became obvious that the debt situation on the farm was not improving but getting increasingly worse, we introduced a proposal for a new credit bill. Senator Sam Nunn of Georgia cosponsored that with me. It increases the loan limit for operating loans to $300,000. It extends the payback time from 7 years to 15 years. It gives some new authority for reamortization and lower interest rates than those now permitted by law. I can't understand why, then, when you are confronted with the facts—the enormous debt load that is now being carried by farmers, the erosion of equity values which we have seen because of the productivity problems, and market price problems on farms—that you can't reassess and make some changes that are so obviously needed. If some of these farmers are going to have any hope of working their way out of this extreme indebtedness, these problems will have to be addressed.

Just as an example, in 1975, let's assume that is when the $100,000 limit was put on the operating loan program, total farm debt for that year was $81.6 billion, and last year, 1982, it was $201.7 billion. An example of net farm income say, in 1975, $24.5 billion of the $81.6 billion would be required to service that debt. Then, in 1982, the net income on the farm went down to $19 billion to service a debt of over $200 billion. To me that indicates we need to adjust our program to help meet the need of farmers who are coming to Farmers Home as the lender of last resort.

The PIK program offers increased opportunity for income now. I am afraid, however, that unless we are able to be more flexible in the loan program there are not going to be many farmers left to take advantage of the higher net income or have the opportunity for greater prosperity on the farm. Unless the PIK program and other initiatives, such as the aggressive export policies that the administration and the Congress are now working to put in place, begin to work, we are just not going to have many farmers left to rejoice at the good news that such progress might bring.

I don't think there is much time left. I think we have to act immediately if there is going to be any help during this crop year. There may be enough farmers this year, so if we do something now, maybe next year there will be better terms available through Farmers Home. I really hope that the administration will recognize the importance of responding favorably to that initiative so that there can be some genuine hope of overcoming the crisis in the credit area.

I think it is pretty bleak; I really do. I know a lot of efforts are being made, as you say in your statement, to work with farmers, to subordinate your loans to other lenders, and to try to put together credit packages that will help farmers who really need for you to go that extra mile this year to keep them in business.

I think, however, you are limited by the law and by your regulations, and they need to be modernized. They need to be changed to coincide with the problems that we now face in 1983, not the ones we had in 1975. The situation is so much more serious today. The lack of credit is more pronounced. I just think we have been waiting around hoping things will get better on their own, and they haven't. Like Mr. Shuman said, he hopes he can rub on the good luck charm so he won't run out of money. That is an awful fix. If you tell a farmer you are looking around for a good luck charm to rub, he is not going to be encouraged. We are going to see a total loss of confidence in the Government's sensitivity to the needs of farmers this year—to those who can't get credit or get adequate financing. I hope it doesn't create a revolution in American agriculture. I can certainly sympathize with those who feel like the Government is letting them down.

Mr. NAYLOR. Mr. Chairman, I am appreciative of your comments. I am concerned that the degree of commitment and concern which Secretary Block, the President, and this administration have for the farmer and his credit needs has been lost sometimes. In the last 3 years, since this administration came in, the Government share of the real estate lending market has risen from 18 percent to 27 percent.

That is a significant record on the part of this administration, especially considering the tight budget constraints and serious concerns regarding Federal deficits during this period. We are committed, as is the President, to being sensitive to, and working very diligently for, the credit needs of farmers. I think that is reflected in our budget request which more than doubles operating loans from any previous administration.

Certainly, there is room to look at options to modernize and update some of the areas of our laws that have not been dealt with for some time. I commend you for your efforts here. Regrettably, Mr. Chairman, the proposals before Congress now go beyond what the administration feels is sound credit practice, and in addition, they have significant budget impacts without commensurate beneficial results.

There are some areas we have worked with you on, Mr. Chairman, that are reflected in our own proposal for reauthorization, and I would hope that we will be able to continue to work with you in those areas that need reform. We should see some progress in that area without including provisions that are counterproductive and not in the best interest of the American producer.

ADDITIONAL LOAN APPLICATIONS THIS YEAR

Senator COCHRAN. I am not really satisfied with the way in which the local offices process these applications, nor am I sure that the requested loans are handled on a timely basis. I heard your figure about the 32,898 borrowers who already have had action taken on their operating loans. That leaves some 12,000 to 13,000 applications which have not yet been processed. Is it anticipated that this approximate figure of 45,000 will probably be the number of operating loans finally approved by Farmers Home this year?

Mr. SHUMAN. We would anticipate that the number would be higher than that. However, I am not able to estimate at this point exactly how many more loans there might be. I can visualize having another 20,000 more loans obligated this year.

Mr. NAYLOR. Mr. Chairman, it is not yet the time nor the season for loans for some crops in certain areas. For example, in my area the loans for winter wheat will be made later. Most of the wheat belt has yet to come in except for spring wheat, Mr. Chairman, in your area. What we are really dealing with now are the remaining loans left for spring crops, and the balance of our lending, of course, is completed later on for winter wheat crops in the wheat area. Many farmers have not even been in the door yet in those areas to tell us what their intentions are.

Obviously, they haven't even gone to harvest yet. We don't know what their plans for next year will be. We don't have any real count at this moment to know what the final total will be.

FMHA HOUSING PROGRAM

Senator COCHRAN. I hope the other members of the panel don't feel as though they are being ignored. I realize you are here and have some questions on the proposals that have been submitted for next year's budget. Before that, however, there are a couple of other questions in connection with the Farmers Home Administration's budget request that I would like to ask. One is on the housing program.

Mr. Naylor, you asked Congress last year, through a legislative effort in the Banking Committee, to create a block grant program for housing, which would, in effect, do away with some of the Farmers Home housing programs. I wonder if the lack of personnel in these local offices is having an adverse impact on your ability to handle and process applications for housing construction? I have some indication from my State that, because of the preoccupation with farm operating loan requests, with which I have no argument, office personnel are not available to do anything with housing applications.

As a matter of fact, the quarter just ended on March 31, and I understand that over $9 million of section 502 housing funds are being returned to Washington from my State, because local offices have not processed applications for housing construction. We probably have a greater need in my State for housing in rural areas than in any other State in the Nation on a per capita basis. Is this an indirect way by the administration of reducing the commitment to housing needs or of helping with housing problems around the country?

Mr. NAYLOR. No, Mr. Chairman, it is not. We have put the priority on our farm lending in the farm States during the spring lending season because of the absolute urgency of having money on time to put a crop in the ground. In those offices where we have a high volume of farm loans, the priority of those offices clearly is in that area. Once those loans are completed, as happened last year, our offices can move back and put priority into the housing area during the late spring and summer months. We did utilize our funding last year and expect to do so this year.

The rural housing block grant proposal that is in the 1984 budget is part of the President's New Federalism proposal. We have worked extensively with State Governors, local community, civic, and local governmental leaders to develop a program that will best meet the needs and give the greatest discretion to local citizens in determining the use of Federal funds for their particular housing needs.

The significant part of the housing block grant proposal is that you do get a substantial leveraging effect by attracting outside resources to these needs. A good deal of our dollars today end up being committed into long-term debt subsidies, where if these dollars were used up front to effectively buy down the principal amount, the impact could be equally as strong as are our current program levels.

We know there will be a great deal of discussion about this program. There are widely ranging viewpoints. We would only hope that in the congressional process this year that the merits and positive side of this proposal will be examined thoroughly. We are convinced the time for some revision has arrived, and it may be time to look at it this year.

IMPLEMENTATION OF RURAL HOUSING BLOCK GRANTS

Senator COCHRAN. I understand and sympathize with the effort to make more efficient the delivery of services to the local level, including housing programs and other Federal Government programs, trying to put more of the decisionmaking responsibility at the local level. However, I worry about transferring the housing program to a block grant program, particularly in States where you don't have a proven structure within State government to deliver the loans and other forms of assistance that might be needed to continue a program.

I also worry about the disparity and the total dollars committed to that kind of program. For instance, in the request for next year, if it is approved and if the block grant change is made, it will amount to a $2.6 billion reduction in spending for rural housing. I think we are going to leave a lot of rural Americans out in the cold, literally, if this change is approved. I don't think the States are going to make up that deficit. We read every day about State budgets running in the red. I know that in my State they are having trouble financing a very important and much-needed education program. The legislature is having to stay in session for an additional few weeks or months to come up with new taxes or cut spending in the other areas to get the budget balanced. I don't think imposing a new responsibility like this one is going to respond to the continuing need for rural housing.

I don't know what the other members of the subcommittee think about the budget request, but I would like to point out that I am not impressed with the request to reduce spending in that area by the amount suggested. There may be ways to streamline that program, make it more efficient, reprogram it in some fashion, or target more of the money to the most needy of the needy. I could go along with some alterations or changes, but that kind of request to me is an emasculation of the Government's rural housing program.

Mr. NAYLOR. Mr. Chairman, we would be most appreciative of the opportunity of working with you in reviewing the impact and the comparable effect of using grant dollars in lieu of loan dollars. There is a significant difference, as I know you are aware, in the effect of leveraging grant dollars and of comparing what the total effective dollars are available for use in housing. Certainly, program changes by the Department of Housing and Urban Development within the last 30 days have significantly improved the attractiveness of commercial lending even in rural areas. That, coupled with appropriate use of grant dollars in lieu of loan dollars, can produce significant leverage in grant moneys and produces a very effective program—a program that may not be very much different than the one we are operating currently.

In any event, I understand the questions that you are raising. They need to be answered. We would look forward to working with you and members of the committee as you address these problems. We will work to answer your questions and to demonstrate the merit of our program proposal.

BUSINESS AND INDUSTRY LOANS

Senator COCHRAN. As I read the budget request for the business and industrial loan program, I saw no money requested. Is that correct? Are you suggesting that that program be done away with?

Mr. SHUMAN. That's correct.

Senator COCHRAN. Last year that same request was made, and Congress appropriated funds to continue the program. I think the reason for it was that that program has been very effective in creating jobs. It was part of the Rural Development Act. Back when I first ran for Congress in 1972, I recall that when that act was passed, it seemed to extend a lot of hope and encouragement to those of us who were interested in economic development in the rural areas and small towns of our country.

It did prove to be an effective program. Between 1974 and 1981, just in my State alone, it was estimated that 2,943 jobs were created, and almost 8,000 jobs were saved, as a result of guaranteed loans that were made under this program. To me, that is a pretty good measure of success of a program, and I worry about the elimination of that program. I frankly think there may be an effort by the administration to eliminate this program, even though we put money in that account. In my State we had one loan approved in this fiscal year. That is almost like doing away with it. You are regulating it out of business, in spite of congressional appropriation of funds and mandate to continue the program.

I am told by some constituents that one such example of overregulation is in the assessment of the value of security on which a loan is based. The rule is that the loan equity is assessed according to net book value rather than appraised value. I am not an accountant, and I am not exactly sure what the difference is, but I am confident that net book value in many cases is lower than appraised value. I don't know how banks consider security value when they are making a loan. To me, it is the market value—whatever you might be expected to get on a sale of property at market—not a building that has been depreciated for tax purposes under the tax laws, so that the value is minimal.

I am told a loan applicant will be advised that his million dollars' worth of security has a net book value of only $200,000. Therefore, the loan can't be approved for an expansion of the business. Are you aware of this kind of policy? Is this your policy, and if so, why?

Mr. SHUMAN. Mr. Chairman, I am not aware of the particular case that you are talking about. Apparently, there is a substantial difference between what the value of the property as it is carried on the books of the company and the appraisal value listed on the loan guarantee application. We do look very carefully at any appraisal surplus above the value that that company is carrying on its books.

Senator COCHRAN. I don't understand your response. Do you use net book value?

Mr. SHUMAN. We look at net book value and then examine the situation very carefully if a proposal is made to us to increase that net book value by an appraisal. We want to understand in detail why that particular piece of equipment or property or security is worth more to that company than what they say it is worth on their books.

Senator COCHRAN. You will never get a loan approved with that kind of rule. We made $300 million available for the operation of this program, and only $18 million has been obligated. The experience that transpired in Mississippi, of only one loan having been approved this year, is not an unusual one around the country. Maybe some States haven't had any loan approvals.

Mr. NAYLOR. Mr. Chairman, the business and industrial loan program as passed in 1972 was unlike any other Farmers Home Administration program. In this program the Agency became a primary lender rather than a lender of last resort. These loans are supposed to meet normal lending standards. We have strictly applied those standards since we came back in. This administration looked very carefully at the abuses and inappropriate lending that was reported by the General Accounting Office and Inspector General's Office in the 1978–80 period. In addition to being sure we had quality loans, we looked at other factors such as the real need for Government involvement. With the exception of two small areas in the United States, the business community has found it is good business to go to rural America. It is a good labor market, and it is a good place to put your business. It is a good way of life. It has been recognized as economically sound to go into rural areas, and they are doing it in large numbers without Federal subsidy.

The only real benefit from the program, because of the Federal guarantee, is that the interest rate is maybe 25, 30, 40 and in some instances maybe 100 base points lower. That is really the effect of the program. It is not actually making direct dollars available. Dollars are coming from a commercial banking source. The business community, I think, has clearly seen the benefit of going in and doing that to a large measure without Federal assistance. They are doing so in large numbers.

Because of that, and because the program has been subject to abuse, we continue to feel that the program should be phased out. It has served its purpose. It was a catalyst. It did a good job. Your assessment that it was a good program in its early days is quite correct.

Mr. SHUMAN. My staff pointed out to me, I thought you were asking questions about the collateral requirements. We have an additional requirement that the individual have a certain percent of ownership of the project. In the equity requirement, we do not allow that individual to use the surplus of appraisal value over book value in determining his equity contribution to the project. However, in determining the value of the collateral that is being proposed as security for the loan, we do use the appraised value of the property where it is appropriate to do so.

So, we have two tests that we look at. One is the equity requirement, and then the other is the value of the collateral.

Senator COCHRAN. When were those regulations promulgated? Are they new regulations or have they been on the books for some time?

Mr. SHUMAN. There has always been an equity requirement, and there has always been the need to make sure there is adequate collateral. We have made some recent changes in how much equity was required and what could be accepted as equity.

Senator COCHRAN. How much did you increase the equity requirement when you promulgated the new regulations?

Mr. SHUMAN. We did not increase the minimum equity requirement, my staff informs me, but we did decide that the appraisal surplus could not be used in determining the equity contribution.

Senator COCHRAN. So, the net book value of the property that is carried on the books of the company, the partnership, or the individual is the only measure you look at to satisfy that part of the regulation; is that correct?

Mr. SHUMAN. As well as other contributions that that owner might be making to the business as a part of his proposal.

B&I LOAN APPROVAL AUTHORITY

Senator COCHRAN. Why is it that loan applications under the B&I program are transferred up here to Washington for approval, and the States have had their power to process and approve these applications taken away?

Mr. SHUMAN. Mr. Chairman, we haven't taken away their power to approve loans. We have, though, asked that the material be sent up to the national office for review. We look at the processing work and the development work that has occurred in the States. If we have suggestions to make, we talk to the loan officer and then authorize the State director or the State office to make the guarantee available. We did this, Mr. Chairman, to assure ourselves that the processing of applications was being handled in accordance with good lending procedures and to find out in which States we needed to increase our training activities. That process has been in place for a little over 1 year now.

Mr. NAYLOR. Mr. Chairman, as this administration came into office, we were given material which showed that the business and industrial loan program was just about the most criticized program and the most seriously challenged program in the Agency.

It was clear from the nonpartisan directions we received that the Congress expected us to get that program straightened out and running properly. We have certainly given it a substantial additional amount of management attention over and above what it had received in the past in an effort to eliminate the abuses that had occurred and were reported by various investigative bodies at the time this administration took office.

Senator COCHRAN. We also have REA, FCIC, and ORDP to hear from today.

Senator BURDICK. Mr. Chairman, before you leave FmHA, I want to tie one question together.

OPERATING LOAN FUNDS AVAILABLE

Mr. Shuman, as I understand it, we have about $300 million available in loan funds, but 17 States are already out of money.

Mr. SHUMAN. About $315 million available for the third quarter. There is about $116.8 million available for the fourth quarter.

Senator BURDICK. Have there been any loans denied right now because of lack of funds?

Mr. SHUMAN. Not through this morning.

Senator BURDICK. Not through this morning. Have any been put on the burner and delayed in these 17 States?

Mr. SHUMAN. Not as a result of there not being funds. There may have been some other programmatic or loanmaking reasons in an individual case that would cause some delay while that applicant supplied information, but not because of a lack of funds.

Senator BURDICK. Is it your intention to do something about distributing some money to these 17 States?

Mr. SHUMAN. We are looking at our options right now, Senator Burdick.

Senator BURDICK. But at this moment nothing has been delayed because of a lack of funds?

Mr. SHUMAN. Not through this morning, before I came here to the hearing.

Senator BURDICK. I hope the same will be true tomorrow morning and the morning after.

Mr. SHUMAN. Senator, let me repeat our earlier statement that while these 17 States have, in fact, reached their limits and are out of funds, we still have funds available on a national basis.

Senator BURDICK. I agree with the chairman, I think it is a serious situation, and we shouldn't let this fall.

FORECLOSURE RATE

Senator COCHRAN. How many farmers are going to be foreclosed this year by Farmers Home?

Mr. SHUMAN. Up to this point, the information we have indicates that the numbers run about the same as last year. We foreclosed on 844 farmers last year.

Senator COCHRAN. What percentage is that to the total number of borrowers?

Mr. SHUMAN. It is so small that it is hard to calculate. It is 844 out of 270,000, about one-third of 1 percent. You must also keep in mind, Mr. Chairman, to keep the proper perspective, that there are others who left farming for financial reasons, some of which were encouraged to leave by Farmers Home, but left without foreclosure action being taken. When you add all those together, less than 3 percent of our borrowers have left farming.

Senator COCHRAN. Is that less than 3 percent the number of farmers who were foreclosed, and also those who were forcibly, or encouraged, to liquidate?

Mr. SHUMAN. That number includes the number who left because of foreclosure action taken by the Agency, the number who left because of bankruptcy, and the number who voluntarily liquidated their accounts or were asked to liquidate their accounts by the Farmers Home Administration.

Senator COCHRAN. Less than 3 percent?

Mr. SHUMAN. Yes, sir.

Senator COCHRAN. Thank you very much, Mr. Shuman.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Farmers Home Administration for response subsequent to the hearing:]

Questions Submitted by Senator Cochran

FINANCIAL CONDITION OF FmHA BORROWERS

Question: In the report accompanying the fiscal year 1983 appropriations bill for Agriculture, Rural Development and Related Agencies, the committee requested information on the financial condition of FmHA farm borrowers. We asked for information about foreclosures, delinquencies, voluntary sales, and action by FmHA to assist farmers. I have a letter from Mr. Shuman responding to that request for information, and I will place that in the record at this point.

(The letter follows:)

Honorable Thad Cochran
Chairman, Subcommittee on Agriculture
and Related Agencies
Committee on Appropriations
United States Senate
Washington, D.C. 20510

MAR 2 1 1983

Dear Mr. Chairman:

Report No. 97-566 on Agriculture, Rural Development, and Related Agencies, Appropriation Bill, 1983, required the Farmers Home Administration (FmHA) to supply certain information. We are pleased to make the following response.

Page 68, "In time for hearings on the fiscal year 1984 budget, the Committee will expect a report on the financial condition of FmHA borrowers including, but not limited to, the numbers of foreclosures that have occurred, the level of delinquencies, and the number of voluntary sales, as well as what actions are being taken to assist farmers who are experiencing severe financial stress."

The FmHA status report for September 30, 1982, shows 270.209 active farmer program borrowers. A total of 66,470 of the active borrowers are behind schedule in payments for a 25 percent delinquency rate. During fiscal year 1982, a total of 1.909 borrowers completed voluntary liquidation, 1,245 had bankruptcy discharge ordered, and foreclosure was completed on 844 borrowers. Every effort is being made to assist farmers who are experiencing severe financial stress. Two hundred thirty borrowers have transferred loans under approved assumption agreements, 3,608 have received deferral of principal and/or interest, and 29,944 were granted subordination of FmHA security for operating purposes. Current quarterly reports may be available in time for the hearings.

Despite hard economic times in agriculture and dire predictions of massive foreclosures, FmHA has been able to stay with over 97 percent of its farm borrowers in 1982. FmHA will continue the policy of assisting farmers on a case-by-case basis in 1983, making maximum use of rescheduling, reamortization, and deferral authorities. FmHA will continue with borrowers, even if they are behind in scheduled payments due to circumstances beyond their control, if they have kept their agreements with FmHA, are using acceptable management practices, are properly maintaining and accounting for security, and projections show they can repay any new loan plus interest from the coming year's income.

Page 58, " . . . will expect FmHA to fully utilize the limited resource loan to assist young persons getting started in farming."

Administrative Notices have been provided to all offices that "Emphasis will be given to assisting beginning farmers, (including young farmers), minorities, and women in all programs." And those States participating in the "New Full-time Family Farmer and Rancher Development Project" have been advised to consider the credit needs of applicants under the program.

States have been directed to reserve 20 percent of their insured farm ownership and operating loan funds for limited resource loan applicants.

In fiscal year 1982, the average age of initial operating loan borrowers was 37 years and the average of limited resource initial operating loan borrowers was 35 years of age. Nearly half--49.9 percent--of the applicants were under 35 years of age. The average age of initial farm ownership borrowers was 35 years with 61.7 percent under 35 years of age. The average age of initial farm ownership limited resource borrowers was 29 years. In fiscal year 1982, 22.9 percent of the allocated funds for farm ownership and 11.9 percent of farm operating loans were used for limited resource borrowers.

Sincerely,

Charles W. Shuman

CHARLES W. SHUMAN
Administrator

Question: Several news programs and magazines have carried stories recently about foreclosures and hardship cases. One in particular involved a Montana family (20/20 program). What has been FmHA's response and follow-up to that story and the plight of that family?

Answer: On March 24, 1983, ABC's 20/20 program featured the Ralph Clark ranch in Montana and the Farmers Home Administration (FmHA). The 20/20 program grossly distorted the picture.

Rather than denying the Clarks money for necessities, FmHA provided $40,000 of which Mr. Clark spent only $20,506. FmHA county supervisor, Rick Hall, contacted the Clarks 16 times in 13 months to continue counseling initiated by his predecessor, an assistant district director and a senior loan officer, between 1979 and 1981.

As of March 1, 1983, unpaid FmHA principal was $1.3 million and the account was delinquent $820,693. The daily interest accrual was $372. Over a 9-year period, the Clarks received more than $1 million in loans at subsidized interest rates. Their $1,222,000 in assets included a half-million dollar purchase of land from an individual who later took foreclosure action which became a precipitating factor in FmHA's acceleration of the accounts.

The decision of the FmHA Montana State Director to initiate foreclosure was upheld by my Office on appeal; the matter has since been referred to the FmHA regional attorney for liquidation. The matter has also been referred to the United States Department of Agriculture Office of Investigation for investigation as to possible conversion of security property.

It is worth noting that only 27 of the 3,027 Montana borrowers of FmHA farmer program type loans required acceleration of their loans.

Mr. and Mrs. Clark still enjoy possession of the security premises. The network producer, Mr. Dick Clark, has been apprised of the above facts which were not reported in the presentation.

AVAILABILITY OF FARM OPERATING LOAN FUNDS

Question: I understand that you are running out of farm operating loan funds in perhaps 14-15 Southern States, including Mississippi, and that there may be a shortfall elsewhere, depending on how the demand shapes up. What is the reason for this draw-down of funds?

Answer: A combination of factors, not the least of which is the economy in the agricultural sector. In addition, the expired eligibility under the emergency loan program and the continued lack of credit availability in some areas have also affected the demand for operating loans this year.

Question: What is being done to alleviate this problem?

Answer: Unused operating loan funds were pooled at the end of the second quarter and the needs of States which have exhausted their allocations are being assessed. There may be a need for redistribution of unused funds in addition to reallocation of pooled funds. We are in consultation with the Secretary, the Office of Management and Budget, and the White House regarding all possible solutions including utilizing some funds from other programs where the demand is less severe at this time.

Question: How much shortfall is there?

Answer: We have some indications that the shortfall will be substantial. As soon as we can determine the precise amounts and the best way to meet these needs, we will come forward to the Congress.

Question: Will the $350 million increase for operating loans in your fiscal year 1984 budget prevent this type of problem from occuring next year?

Answer: We believe our 1984 budget projections are based on sound conclusions. There are, of course, many variables to consider in assessing the need. These include the availability of private sector credit, the payment-in-kind program, weather, supplies, prices and the world market.

Question: Please provide the committee with details of the shortages and effects on each State.

Answer: Latest reports indicate 17 States are seriously affected. These are: Alabama, Arkansas, Georgia, Illinois, Louisiana, Mississippi, Montana, New Mexico, North Carolina, North Dakota, Ohio, Oklahoma, South Carolina, Tennessee, Texas, Washington and Wyoming. We have pooled and redistributed funds to these States. This is causing some lag time in funding onhand loan requests. We are still accepting applications and are in daily contact with the affected States. We are nearing the end of our heavy lending season.

ECONOMIC EMERGENCY LOAN PROGRAM

Question: Recently, Under Secretary Naylor was quoted as saying the administration would not support an emergency credit bill for farmers, and that the Farmers Home Administration was already providing enough assistance to those who need it. Your budget includes no request for the economic emergency loan program. Why are no funds requested?

Answer: The authority to operate the economic emergency loan program expired on September 30, 1982. We do not think it is necessary to authorize this program at this time. Family size farmers should be served under the regular farm operating loan program and larger than family size farmers should be able to meet the requirements for credit from regular sources if they are viable and efficient.

Question: In the face of the operating loan program cash shortfall in several States, will the administration's position on economic emergency loans change?

Answer: No, the administration has several other options available to ensure adequate funding for the operating loan program.

FARMER PROGRAMS PROPOSED LEGISLATION

Question: I have recently introduced a farm credit bill. In view of recent developments and problems, what is the administration's position on that proposed legislation?

Answer: The Senate bill, S. 130, contains provisions with respect to individual operating loan limits, subsequent lending under the emergency disaster loan program, and loan moratorium features which are different than the proposal submitted by the administration. Amendments to the Consolidated Farm and Rural Development Act that the administration recommends are contained in the Senate bill, S. 857.

Question: Secretary Naylor also recently reiterated the administration's opposition to an "indiscriminate" moratorium on Farmers Home Administration loan repayments. Has that position changed at all?

Answer: Our position has not changed. The Secretary's discretionary authority to defer principal and interest or forego foreclosure already exists to assist FmHA borrowers who are in financial difficulty.

Question: Would any type of moratorium arrangement be acceptable?

Answer: A moratorium, available for the asking, would give FmHA borrowers a privilege not available to the 88 percent of American farmers who are not Farmers Home Administration borrowers. We believe the administration of existing authorities is adequate to provide the relief needed on a case-by-case basis. A moratorium authority, with appeals process, would seriously deplete the time FmHA field staffs could devote to making loans and furnishing guidance and supervision.

Question: Last year, we found ourselves with a Senate floor amendment on this issue, which became quite an item of controversy in conference. Is there any "middle ground" that could be reached in your opinion?

Answer: We believe the implementation of our new FmHA Form 1924-14, which informs borrowers of available FmHA loan servicing options, will adequately assist borrowers. Under existing authorities, foreclosures were held to numbers far below some observers' estimates during the past year. More than 42,000 borrowers' loans were deferred, rescheduled, reamortized or consolidated or subordinated to continue with FmHA loans or secure other credit. When there is a need to postpone payments, rescheduling or reamortization with deferral authority of one to three years can be more beneficial to borrowers than a one year moratorium.

SOIL CONSERVATION LOANS

Question: Your budget eliminates the $30 million soil conservation loan program. What is the reason for this deletion?

Answer: Demand for loans in the soil conservation loan programs has been minor in recent years. In fiscal year 1982 only six loans were obligated in the amount of $1,935,000.

Due to the reductions in the number of projects authorized by the Soil Conservation Service, the number of applications for these types of loans has declined.

Question: Are there other funding sources available to farmer/landowners for this purpose?

Answer: Yes, individual soil and water loans can be used to serve some of the same purposes as the association soil conservation loan programs.

BUSINESS AND INDUSTRIAL LOAN PROGRAM

Question: Your budget calls for the elimination of the $300 million business and industrial loan program, which also includes permissive funding for alcohol production loans. What is the rationale behind the elimination of the B&I program?

Answer: One of the primary purposes of the business and industrial loan program was to provide job opportunities in rural areas to stop the trend of outmigration of people from rural areas due to the lack of job opportunities. Evidence exists that the trend has been reversed. Also, we have found that the private sector rural or regional banks could act together with their correspondent banks to provide the same financing as the Government. For these reasons we have recommended the program be discontinued.

Question: The B&I office tells me that between 1974 and 1981, in my State alone, it is estimated that 2,943 jobs were created and 7,885 jobs were saved as the result of 260 guaranteed loans totalling $173.6 million. Isn't this a satisfactory measure of success?

(Nationwide, jobs created and saved are estimated at 226,475 and 209,270, respectively, for those 8 years — 6,804 loan guarantees totalling over $5 billion.)

Answer: Yes, there has been a substantial number of jobs saved or created that can be associated with the B&I program, but because the program has not had a "credit elsewhere" test, the program has been a primary lender in competition with regular sources of credit. In many cases where the projects were viable, the loan would have been made without the Federal guarantee and therefore the jobs would have been created without the Federal intervention in the credit market.

Question: In fiscal year 1982, FmHA obligated only $61.2 million in the B&I program. Through mid-February of this year, only a little over $18 million has been obligated. How much do you estimate will be obligated during the balance of fiscal year 1983?

Answer: All of the funding is available, and we are obligating loans as soon as they are determined to be sound and feasible. We will utilize as much funding as possible within good loan making procedures.

Question: I am concerned about one particular rationale you gave in your Explanatory Notes for terminating the program. You allege that local banks that sell B&I loan guarantees in the secondary market are the program's primary beneficiaries. In view of all the jobs created and saved over the years, and all the businesses that thrive today because they got a start with B&I, how do you conclude that the banks are the major beneficiaries?

Answer: This statement was made with the thought in mind that most of the guaranteed loans made would have been made without the guarantee. Therefore, the fees and interest earned by the banks made them the major beneficiaries of the guaranteed loan program.

Question: You also state that there is "no evidence that rural development will be significantly affected by the elimination of this program." How did you arrive at this conclusion? Please provide the data on which this conclusion is based.

Answer: This conclusion was based upon the availability of adequate private credit to finance the needs of businesses in rural areas.

Question: I am told that all loan approval and most servicing activity for B&I loans has been moved to Washington. Why can't experienced personnel already in place in the States process and service the loans?

Answer: FmHA is in the process of changing regulations to permit the servicing activity to be transferred to the field when we have experienced field personnel. Transfer of some of the approval authority to the field may be considered after the release of revised regulations.

LOAN REQUIREMENTS

Question: I understand that the equity of a loan applicant is assessed according to "net book value" rather than "appraised value." In some cases, this ironclad requirement may be the only criterion that holds up an otherwise good loan. Why can't there be a waiver of this requirement if a loan application is assessed as good in every other aspect?

Answer: In determining the equity, we have used historical "net book value" as this is the accepted accounting and lending standard used by commercial lenders. Our experience with allowing appraisal values was very poor and caused us to change our regulations to use "net book value" in computing our minimum equity requirements. Since our minimum equity requirements are so low, we do not feel this requirement is too much of a burden on our applicants.

WATER AND SEWER FACILITIES PROGRAM

Question: The budget requests $125 million less for water and sewer loans and $35 million less for grants for fiscal year 1984 than fiscal year 1983. How do you rationalize these reductions?

Answer: The decrease was proposed since substantial progress has been made in the provision of modern water and waste systems throughout the country and there is a need for the Federal Government to reduce Federal credit that will assist in minimizing the impact of Federal borrowing on increasing interest rates in financial markets. The proposed budget for water and waste disposal loans and grants will still enable the most needy projects to be funded. Also, additional emphasis will be placed on working with investment bankers and other commercial credit sources to maximize their participation in the funding of water and sewer projects in rural areas.

Question: What priority does FmHA place on getting assistance into rural communities without any public water or wastewater systems at all?

Answer: In determining project priorities, FmHA gives due consideration to State development strategies and projects needing improvements to comply with the Safe Drinking Water Act. Also, priority is given to municipalities and other public agencies in rural communities having a population not in excess of 5,500 that have an inadequate water or wastewater system. Many rural communities without any water or wastewater facilities meet these criteria.

Question: How many Farmers Home State Offices did not obligate all of the water and waste disposal loan or grant funds initially allocated to them for fiscal year 1982? How does this compare with prior years?

Answer: There were 25 FmHA State Offices that did not obligate all of the water and waste disposal loan or grant funds initially allocated to them for fiscal year 1982. In fiscal year 1981 there were 12 State Offices that did not obligate their total initial allocations and in fiscal year 1980 there were 14.

Question: Why were a number of State Offices unable to use the money available to them? To what extent did this relate to the interest rates charged for loan funds?

Answer: Many of the State Offices were unable to use the money available to them because many rural towns and small nonprofit associations were unable to afford the high interest rates necessary for loan repayment. When the interest rates were at their highest, many potential applicants delayed their projects. As rates have gone down, more communities are proceeding with developing their projects.

Question: What will be the result of your January 12 regulations which deny any water and waste disposal grant funds to projects in communities which FmHA finds to have incomes above 85 percent of the statewide nonmetropolitan median family income?

Answer: The result of the regulation changes will be to direct available grant funds to the most financially needy communities. The median income criterion represent more accurately the income of each service area.

FmHA's changes in regulations are to make its programs more responsive to the needs of rural America and to meet the intent of Congress. FmHA will continue to monitor the effects of this regulation to be certain it addresses these needs.

Question: What percentage of rural communities currently eligible for FmHA grant assistance will be denied this assistance under this rule?

Answer: FmHA has no statistics available on the percentage of rural communities that are no longer eligible for FmHA grant assistance as a result of the January 12, 1983 regulation change. These higher income communities that are now ineligible for FmHA grant assistance are still eligible for loan assistance at a market interest rate. FmHA will do everything possible within its authorities and available funds to provide assistance to higher income communities.

Question: This committee has heard concern about how water and waste disposal projects are selected to receive FmHA funds. How many of the factors in the project selection system proposed by Farmers Home last October relate directly to a community's ability to pay and the health hazards the community faces because of the lack of adequate facilities?

Answer: The community programs selection criteria that were published in the Federal Register as a proposed rule on October 15, 1982, are presently being revised for publication as a final rule. The selection criteria being developed contain a substantial number of points directly relating to income considerations as well as health hazards, plus some additional points for the smaller size communities.

Question: I understand that Farmers Home now uses three separate interest rates in its water and waste disposal loan program. Please provide the committee with a breakdown on what percentage of fiscal year 1982 loan funds were provided at what rates and the percentage of grant funds that were coupled with loan funds in each of the three interest rate categories?

Answer: Loans made at the poverty line interest rate consisted of 10 percent of all loans made and were coupled with 20 percent of all grant funds. Loans made at the intermediate interest rate consisted of 13 percent of all loan funds and were coupled with 14 percent of all grant funds. Market rate loans comprised 77 percent of all loan funding and were coupled with 66 percent of all grant funds.

Question: The committee has been told that during FY 1982 grant funds were frequently awarded to moderate and higher income communities. The effect was to effectively reduce the interest rate of FmHA loan funds to levels substantially below the nominal market rate. Is this true, and if so, what plans do you have to avoid this practice in FY 1984?

Answer: FmHA issued regulations on January 12, 1983 which no longer permit FmHA grant funds to be used in any project where the median family income of the service area is more than 85 percent of the nonmetropolitan median family income of the State. Thus, FmHA grant funds are now directed at low to moderate income communities only. In these communities, applicants will be considered for grant assistance only when the debt service portion of the user cost exceeds the following percentages of median family income: .5 percent when the median family income of the service area is below the poverty line or 1.0 percent when the median family income of the service area is not more than 85 percent of the nonmetropolitan median family income of the State.

Question: What effect have the reductions and changes in other programs, such as the EPA wastewater treatment works construction grant program, had in the level and types of requests for FmHA water and waste disposal program funds?

Answer: Between March 5, 1982, and March 9, 1983, Farmers Home Administration water and waste disposal loan and grant preapplications and unobligated applications actually decreased. FmHA's water and waste disposal loan preapplications and unobligated applications decreased by 915, for a total of $987.1 million. Grant preapplications and unobligated applications decreased by 520 for a total of $295.7 million.

The Agency has no statistical data available to indicate how much, if any, of these decreases are related to reductions or changes in programs of other agencies.

WATER AND WASTE GRANT ALLOCATION FORMULA

Question: The recently enacted jobs bill requires that the supplemental grant program funds be awarded under the 1981 formula and regulations, not the more restrictive regulations you published in January. What plans do you have to withdraw those regulations with respect to the FY 1983 grant funds provided in the regular appropriations bill?

Answer: FmHA's purpose for the current grant regulations is to make its programs more responsive to the needs of rural America and to meet the intent of Congress. FmHA will continue to monitor the effects of this regulation to be certain it addresses these needs.

PROPOSED RURAL HOUSING BLOCK GRANT PROGRAM

Question: The Farmers Home Administration budget proposes a rural housing block grant totalling $850 million as a substitute for existing rural housing loan programs, on which thousands of rural American families depend. In effect, this is a reduction of $2.6 billion in rural housing spending. I am fearful that we will really be leaving much of rural America "in the cold" if this change is made. There is no guarantee that States will utilize the new grant funds to replace the beneficial impact of the current loan program.

What is your assessment of the impact of this proposal on rural America?

Answer: We view the rural housing block grant program as a major programmatic improvement over FmHA's traditional lending programs, particularly the homeownership program. Given the rapidly rising cost of a single family home, now estimated at $45,000, most very low income families cannot benefit from the rural lending programs even if interest rates are subsidized to one percent. However, block grants can provide subsidies deep enough to assist very low income families.

Our proposed block grant legislation will require that 80% of the funds be earmarked for very low income families with total income of up to 50% of the State or national median income, whichever is greater. In addition, States will be able to tailor their housing programs to their special needs. A block grant makes good fiscal sense by replacing long-term Federal interest subsidies with up front grants thereby reducing the future tax burden on Americans.

We believe that less borrowing by the Treasury will result in more investment capital being available to the private investment community, including the Federal land banks, production credit associations and others. These organizations have been very successful in competing for investment capital for use in rural areas. The rural housing block grant program provides an opportunity to reduce Federal credit activities and borrowing by the Treasury.

Question: How many current or potential loan recipients will be affected by the change?

Answer: Even though the fiscal year 1984 funding levels result in a reduction in total dollars, you have to remember that the proposed budget reflects a major programmatic change from traditional lending to that of block grants. One cannot compare the benefits derived from loans to that of grants because they are not the same.

Grant funds could be used by the States to build, repair, improve or convert structures, to name a few purposes, or to buy down mortgages to an affordable level for low income borrowers or to leverage funds from other non-Federal sources. Therefore, the number of units to be provided under the block grant program would be very difficult to estimate at this time since it would be dependent upon how the States choose to implement the grants.

Question: Has the legislation been submitted to Congress? If not, when can we expect it?

Answer: The block grant legislation was submitted to the Vice President and to the Speaker of the House on February 24, 1983, and Senator Garn introduced it in the Senate on March 10, 1983, as bill S. 761, to Amend Title V of the Housing Act of 1949. This bill provides the necessary legislation to establish among other things a rural housing block grant program.

Question: Will the grant program only exacerbate budget outlay problems since it is an "on-budget" item, while the loan programs are "off-budget".

Answer: The administration has proposed legislation that would change the budgetary treatment of the sales of Certificates of Beneficial Ownership (CBO). The proposed treatment of sales of CBO's as a borrowing transaction rather than a sale of an asset will effectively bring new loan program activity "on budget" in FY 1984 and thereafter. Thus the budgetary impacts of loan programs and grant programs would be similar in the future under the administration's proposal, except that most loans made are eventually repaid and the future principal repayments reduce the outlay impacts of a loan program below those of grant programs.

STATE DISTRIBUTION OF RURAL HOUSING BLOCK GRANT FUNDS

Question: Could you provide the subcommittee with a proposed State-by-State distribution formula for the grants?

Answer: The following table shows our estimated allocation of block grant funds:

STATE	ESTIMATED ALLOCATION TO STATES FOR BLOCK GRANTS
ALABAMA	$26,197,000
ALASKA	3,553,000
ARIZONA	5,516,500
ARKANSAS	17,918,000
CALIFORNIA	23,987,000
COLORADO	6,621,500
CONNECTICUT	7,837,000
DELAWARE	2,167,500
FLORIDA	17,518,500
GEORGIA	30,532,000
HAWAII	1,683,000
IDAHO	5,329,500
ILLINOIS	24,208,000
INDIANA	24,769,000
IOWA	15,665,500
KANSAS	10,149,000
KENTUCKY	38,462,500
LOUISIANA	18,912,500
MAINE	10,565,500
MARYLAND	10,166,000
MASSACHUSETTS	9,894,000
MICHIGAN	34,688,500
MINNESOTA	18,479,000
MISSISSIPPI	25,058,000
MISSOURI	21,887,500
MONTANA	5,380,500
NEBRASKA	7,318,500
NEVADA	1,317,500
NEW HAMPSHIRE	5,958,500
NEW JERSEY	10,174,500
NEW MEXICO	6,043,500
NEW YORK	42,483,000
NORTH CAROLINA	51,943,500
NORTH DAKOTA	5,117,000
OHIO	36,669,000
OKLAHOMA	12,673,500
OREGON	10,123,500
PENNSYLVANIA	48,790,000
RHODE ISLAND	1,538,500
SOUTH CAROLINA	23,145,500
SOUTH DAKOTA	5,465,500
TENNESSEE	28,288,000
TEXAS	38,692,000
UTAH	2,465,000
VERMONT	4,836,500
VIRGINIA	28,628,000
WASHINGTON	12,843,500
WEST VIRGINIA	23,468,500
WISCONSIN	22,763,000
WYOMING	2,108,000
TOTAL	$850,000,000

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STATE USAGE OF RURAL HOUSING BLOCK GRANT FUNDS

Question: Have you surveyed the ability, financial and otherwise, of the States to assume the responsibility of implementing these grants?

Answer: The Office of Rural Development Policy of the Department of Agriculture conducted an informal survey of officials of State and local governments and housing related organizations to determine their attitudes regarding a block grant proposal. The majority of those questions were in favor of the block grant concept. Some felt their States would be able to assume the responsibilities immediately because of the active roles presently taken by the housing finance agency or other organizations within the State; while others felt a transitional period would be necessary because their organizational structures were relatively new. In addition, proposals such as the block grant were discussed with members of the Rural Development Advisory Commission in developing the Rural Development Strategy submitted to Congress in February of this year.

Further, the General Accounting Office recently released a report which examined the level of effort in providing housing assistance under the community development block grant of the Department of Housing and Urban Development. The GAO also reported on a survey of local housing officials to determine their attitudes toward housing block grants. According to that report, there was support for the block grant concepts, particularly in serving the housing needs of very-low income families.

In addition, all States but Kansas and Washington have active State housing finance agencies with the power to issue State revenue bonds for low income, single and multifamily housing. Since 1970, these agencies have financed approximately 820,000 multi- and single family homes built in both rural and urban areas.

Question: What is your estimate of the number of units that can be assisted with the $850 million?

Answer: We assume that because of the emphasis the legislation places on providing assistance to very low income families, the States will turn to full or partial grants for rehabilitation and repair of single family units; or the acquisition of sites for multifamily housing units rather than concentrate on a single family loan program. Because of this, a dollar-for-dollar comparsion is not valid.

In addition, any leverage of funds will depend entirely on how the States utilize the program and how successful they are in combining these resources with other resources to which they have access. The States have been very successful in recent years in providing housing assistance and there is no reason to believe that they will be less innovative in utilizing block grant funds in the future.

Question: Will any of the $850 million be eligible for use by the States to administer the program?

Answer: The proposed legislation does not provide for any of the funding to be used for administrative purposes. We believe that the maximum leverage of funding should be made with the grants and that the States should absorb any administrative costs.

Question: How many States do you anticipate will participate in the rural block grant program? How many will not?

Answer: We believe realistically that not all States will be ready initially to implement the new block grant program. Of course, if all States request the block grants, the funding would be provided then.

During the first year, a State may elect to participate at the beginning of any quarter by advising the Farmers Home Administration at least thirty days in advance of the beginning of the fiscal year quarter. In subsequent years, the State may elect to participate by advising the Farmers Home Administration at least thirty days in advance of the beginning of the fiscal year.

Our preliminary estimates are that approximately 40 States would participate the first year.

MUTUAL AND SELF-HELP HOUSING PROGRAM

Question: What is the future of the section 523 mutual and self-help housing program under your proposed plan? The budget request includes no funding for it.

Answer: It is expected that in fiscal year 1984, thirty-one self-help housing grants totaling $5,000,000 will expire. As you know, we are proposing a rural housing block grant program for fiscal year 1984. It is our intention that the self-help housing program be an integral part of the block grant program. It will be up to the individual State to make available funding for a self-help housing program. Therefore, we are not requesting any funds for this program for fiscal year 1984.

REQUIREMENTS FOR RENTAL ASSISTANCE FUNDING

Question: In January FmHA issued field allocations for rental assistance funds. You "strongly advised and recommended" that State Directors allow for the funding of projects when not more than 40% of the occupants would be dependent on rental assistance. This appears to me to be a rigid and unfair guideline because it serves to displace the very needy, which includes elderly people. Senator Cohen of Maine has already been contacted about the adverse effect of your recommendation. Two of the poorest areas in his State will not be able to build projects because of the 40% requirement you have imposed. How do you rationalize this policy with the goal of FmHA to serve the low income population?

Answer: With the elimination of additional financial assistance in the form of Section 8 units under the Department of Housing and Urban Development, and the reduction of Farmers Home Administration's rental assistance units, it becomes imperative to make sure that all rural rental housing projects provide an adequate market plan to pay the proposed rents.

In our attempt to assist as many projects as possible to maintain the economic viability of the project in the future and in compliance with legislative intent, we instructed our State Directors to allocate not more than 40 percent of rental assistance to the units in the project. However, this is no manner or form limited the State Directors in allocating a greater number of units to the project should they be needed.

Projects are selected on the basis of a point system which tends to allocate funds to areas of greatest need.

Question: Isn't it the prerogative of State Directors to fund projects according to the greatest demonstrated need?

Answer: The State Director has authority to fund projects which have been determined eligible and feasible and have received the highest number of points within the point selection procedure as indicated in the program regulations. This point selection criteria is based on the number of rural population, the number of people living under the poverty level, and the percentage of substandard housing and is indicative of the need for housing.

Question: It may be argued that the 40 percent requirement would allow for the building of a greater number of projects across one's State. Is it not possible that the greatest abject poverty could be concentrated in certain sections of the State, thereby requiring a much deeper subsidy for most occupants of a project?

Answer: This may be true, Senator, but as I have previously indicated, the 40 percent limitation is only a guideline and State Directors may authorize a greater number of rental assistance units to a project.

In addition, Congress imposed the 40 percent limitation in allocating rental assistance units to rural rental housing projects in an attempt to obtain an economic income level mix of the tenants and to maintain the future economic viability of the project.

Question: It may also be argued that you are implementing this restriction so that rental assistance contracts will expire at the end of their 5-year term, in case Congress decides not to fund rental assistance programs.

In view of Congressional intent in the reauthorization of the rural housing program last year, and the likelihood that Congress will correct this problem with the allocation of rental assistance in the legislation currently being written, will you reconsider your policy on rental assistance payments?

Answer: We do not believe that the 40 percent limitation has any bearing on the expiration date of the unit. The unit will expire whenever the funding for the projects has been exhausted.

In response to your second question, the Agency would certainly reconsider its policy in light of any new legislative changes implemented by Congress.

USE OF RENTAL ASSISTANCE FUNDS

Question: In the recently issued allocations and instructions for use of rental assistance units in 1983, why were seasonal labor (migrant) projects specifically excluded from assistance? There is also an absolute priority for senior citizen projects. Why are needy low income families excluded?

Answer: We have limited the use of rental assistance units to labor housing projects constructed for year-round occupancy for three reasons. First, with very limited rental assistance available, we believe the highest priority should be given to year-round low income residents of the community, whether farm laborers or not. Secondly, any project which could receive rental assistance subsidies could also receive up to a 90 percent grant for construction thus reducing the loan amortization costs to a minimum. Thirdly, we have found that income certifications for migrant farmworkers is a serious management problem. Where no rental assistance is involved, the labor housing program requires only occupational determination; with rental assistance, the tenant's income determines the amount of subsidy. We are seeking ways to make these income certifications that are fair and equitable for all tenants. However, until we have a better system, we are stressing that rental assistance be used to address the requirements of year-round occupied farm labor housing.

Senior citizens are less mobile, are one of the lower income tenant groups, and have neither the resources for augmenting nor the potential for increasing that income, since most of them live on a fixed income. Thus, it was determined to use a limited number of rental assistance units to assist this group of the population. However, I would like to indicate that this is not an absolute priority as your question tends to imply. Once the needs of the senior citizen projects have been addressed, the State is able to utilize the remaining number of rental assistance units for general occupancy projects to address the needs of other low income families.

Question: The 1984 rental assistance budget request for $62 million direct appropriation is solely for 6,000 renewal units. How will you assist other tenants in existing FmHA financed projects who find themselves unable to afford basic rents?

Answer: Under the rural housing block grant program, State agencies would be able to provide rental assistance to tenants in existing projects to help pay their housing costs. The amount of assistance available to tenants in existing rural rental housing would depend on the priorities established by individual States.

Question: How will you assure that low income farmworkers in newly produced units can afford their rentals?

Answer: State agencies and other nonprofit entities, through the use of the labor housing 90 percent grant program for construction, are able to reduce the loan amortization costs to a minimum amount. The entities that receive rental assistance units are also able to receive labor housing grants.

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Construction standards have been reduced for units which will house seasonal domestic laborers only during the crop year. This reduction of standards will not reduce the livability, safety, or sanitary aspects of the housing, but it will reduce the cost of construction. This will reduce the rents to be charged the tenants.

Question: Should the committee decide to fund this program in the credit budget, as has been done in past years, what would be your equivalent loan request?

Answer: That is difficult to answer since it would depend upon how the State utilized the block grants. However, we feel that implementing the rural housing block grant program can adequately provide a similar number of rental housing units as provided in the credit budget for the past years. The rural rental housing units presently are developed for approximately $32,000 per unit and single family housing units cost approximately $45,000 per house.

STAFFING OF FmHA OFFICES

Question: Your budget request for an appropriation for salaries and expenses is $318.4 million -- up $19.4 million from last year, including a pay supplemental. Will this increased level provide enough support to adequately staff the State and County Offices around the country?

Answer: The additional funds we are requesting in 1984 will be used to finance from appropriated funds instead of revolving funds the 1983 approved staff year level. This would allow the Agency to employ permanent full-time staff primarily in County Offices. We are also requesting an additional 186 permanent full-time staff years in 1984 for loan servicing, credit counseling and debt collection. If our request is approved, we anticipate an improved level of service to the rural public.

Question: The Washington Post recently ran a story on the shortage of staff, particularly in County Offices, to help process and service loans. What I hear in my own State confirms that a problem does exist. What is being done to provide more staff where they are needed to handle the ever increasing volume of loan applications?

Answer: State Offices were notified of their increased ceilings late in January and are currently in the process of filling vacant positions. These additional people will assist in the processing of loan applications. Also, employees within a State can be detailed to assist an office with a backlog of loan applications.

Question: What, if any, additional authority or funding do you need from Congress in order to address this problem satisfactorily?

Answer: The additional funds requested in 1984, if approved, will allow us to staff our Offices with a sufficient number of employees to adequately meet most workload situations.

Question: A recent Inspector General's audit report concludes that:

> "During the last decade, the number of FmHA personnel to process and service loans has not kept pace with the increase in loan program activity. While FmHA's loan portfolio increased from

> about 400,000 borrowers to about 1.3 million borrowers with loans totaling about $44.6 billion, the full-time personnel ceiling increased by less than 5 percent. This rapid expansion, both in volume and types of loans, has adversely impacted FmHA's capability to process and service the total loan portfolio in accordance with legislated authorities and related regulations."

--Do you concur with this assessment?

Answer: We have indeed had a period of phenomenal growth in both the number of borrowers and the dollar amount of loans outstanding. We are now in the process of bringing on board and training more staff, particularly at the local office level, to improve our service to rural borrowers and more adequately protect the interest of the Government.

Question: What corrective measures are being taken?

Answer: We are working to improve the services delivered by our District and County Offices. Our staff-year ceiling for 1983 has been increased and we are in the process of filling permanent positions. In addition, we are providing training for our field office staff to insure that they are knowledgeable in all programs administered by the Agency. Servicing and credit counseling has been the keystone of this administration.

OIG REPORT ON FmHA LOAN PROCESSING AND SERVICING

Question: A recently released audit report of the USDA Inspector General is rather critical of FmHA's eligibility determinations in the processing and servicing of several different loan programs. In summary,

> The audit results evidence the need for FmHA management to establish and maintain better accountability over the performance of those officials responsible for processing and servicing loans in accordance with regulations and program objectives. Also, loan officials need to give higher priority to processing and servicing for quality loans and place less emphasis on loan volume. Projection of the results nationwide showed:
>
> - FmHA was incurring $100 million in unnecessary annual interest expense by continuing with an estimated 96,098 rural housing borrowers ($1.3 billion outstanding) identified as having high potential for refinancing their loans through other credit sources.
> - An estimated $375 million used for 9,571 questionable loans could have been saved or used to assist eligible loan applicants.
> - FmHA could save annually: (1) an estimated $1 to $2 million by correcting the interest rates on an estimated 3,410 economic emergency loans totaling $199 million; and (2) the difference in the loan rate and future costs of financing FmHA loan programs by correcting the terms on an estimated 3,774 economic emergency loans totaling $218 million.

- o FmHA could save about $13 million annually by eliminating delays in delivering loan checks. (FmHA advised that, although this would reduce FmHA interest costs, it does not represent a savings to the Government since Treasury does not pay interest on the funds until the checks are negotiated.)

What is your reaction to this audit and its findings? Please address each item summarized above by providing explanations where appropriate and describing any corrective measures taken.

Answer: First of all, we believe the audit is an oversimplification of the situation. Our detailed analysis of the accounts of the same borrowers reviewed by the USDA Office of Inspector General (OIG) showed that less than 40,000 of the 96,098 rural housing borrowers could actually obtain other credit at this time. Most of these 96,098 borrowers were already scheduled for review or would have been reviewed for possible graduation within the next year.

Our present graduation policy allows that if other credit is available in an amount sufficient to refinance the balance of an FmHA loan and such credit is offered by one or more local lenders at rates and terms the borrower can afford refinancing will be required. If other credit is not available at this time, FmHA will continue with the loan until such time as other credit becomes available.

At the present time, FmHA is in the final stages of releasing a revised graduation procedure. The new procedure will provide simplification and clarity to more effectively fulfill the Agency's graduation responsibilities.

In addition, according to the audit, 22 percent of these "questionable" loans involved rural housing type loans. The sample used in the audit involved loans made in 1980. Since 1980 we have implemented a revised rural housing regulation that requires that all income be reverified if more than 90 days elapses between the last verification of income and loan approval or loan closing. We also have provided training for the rural housing staff in all States on proper verification of income. The suggestions in the audit have been implemented and much of this problem eliminated.

Regarding reviewing existing economic emergency loans, the Agency will review all loans specifically identified by the OIG in their audit reports as having been made at the incorrect interest rate or excessive terms. Procedures for handling loans determined to have been made at incorrect interest rates or excessive terms are currently being written and will be distributed to the field offices by early 1983.

However, we do not plan to adopt OIG's recommendation to issue procedures stipulating that refinancing operating debts should be scheduled for repayment within 7 years and no more than 20 years even when secured by real estate. The laws and FmHA regulations under which the loan program operates allow for the making of loan(s) for the purpose of refinancing operating debts at real estate terms when real estate is pledged as security for the loan(s). We have found in many instances, due to the borrower's limited repayment ability, the longer repayment terms of 30 or 40 years are justified and will allow the borrower to continue with his farming operation.

We have been studying the potential for interest savings by lessening the delay in check delivery and agree with OIG's observations in this regard. To this end, we have been experimenting with different disbursement methods which we believe will rectify this situation.

RURAL COMMUNITY FIRE PROTECTION GRANTS

Question: I notice your budget request eliminates funding for the $3.25 million rural community fire protection grants. This is a very popular program, and I've heard good things about it. Why are you proposing its elimination?

Answer: We are proposing to eliminate the rural community fire protection grant program because other programs are available to provide this assistance to rural communities.

Question: Are loan funds available to rural communities for this purpose from other Federal or private sources?

Answer: Loan funds are available to rural communities from the community facility loan program of the Farmers Home Administration. In addition, surplus equipment is available from the Forest Service for firefighting purposes.

MINORITY DISCRIMINATION CHARGES - CIVIL RIGHTS COMMISSION ACCUSATIONS

Question: Today's Washington Post carries a story about some allegations leveled by the U.S. Civil Rights Commission against the Department of Agriculture concerning the enforcement of civil rights programs and discrimination against black farmers. Included in the charges are criticisms that FmHA loans to blacks have "steadily declined" during the past year, and that FmHA's personnel increases have not included commensurate minority hiring. What is your response to these charges? Are the allegations accurate?

Answer: Farm ownership and operating loans to black farmers have declined in FY 82 from FY 81 levels. There was also a small decline in overall minority employment during this period.

Question: Is it true that the Civil Rights Commission pointed out inequities in FmHA lending programs a year ago, and that FmHA has done nothing to take corrective action?

Answer: It is not accurate to say that FmHA has done nothing to alter inequities in the farm loan program cited by the Civil Rights Commission. First, we have made training in the Equal Credit Opportunity Act an integral part of our Civil Rights Training Course. This training course is mandatory for all field staff who conduct civil rights compliance reviews. Secondly, we have increased the number of black committee members from 253 in 1980 to 379 as of September 30, 1982. We believe black and other minority committee members bring knowledge, insight and a sensitivity to black farmers that might not otherwise exist. It might be of interest to know that in the 14 States with the largest black farming population, 209 of 627 limited resource operating loans, or 30 percent, were made to black farmers in FY 1982.

Question: Do FmHA lending programs, in fact, discriminate against minorities?

Answer: No. All allegations of discrimination are reviewed by FmHA and the Department's Office of Minority Affairs. Whenever a violation of law or FmHA regulation occurs, corrective action is instituted. FmHA does not have the authority to investigate complaints of discrimination on its own initiative.

Question: What is the current percentage of minority employees at FmHA in comparison with a year ago?

Answer: As of March 1982, the percentage of minorities in FmHA's permanent full-time workforce was 10.8. In March 1983, the percentage of minorities was 11.4

Question: Are you making any changes to correct these alleged problems?

Answer: FmHA is implementing a program in response to President Reagan's Executive Order 12320 to assist historically black colleges and universities. The program has the potential to reverse the decline in the number of black farmers. One objective of the program is to establish a training program at a black land-grant college or university using faculty and students to assist FmHA borrowers in modern farming financial and business methods, including cash budgeting, leasing, marketing, etc. Another program objective is to employ, during the summer months, faculty members from historically black land-grant colleges and universities to acquaint them with FmHA programs, policies and procedures, and to acquaint them with potential employment opportunities for their students.

QUESTIONS SUBMITTED BY SENATOR MCCLURE

SALE OF FmHA FINANCED HOUSES

Question: Some areas have a high concentration of FmHA financed houses. Due to regulations the resale of some of these properties has been greatly slowed because of a lack of eligible buyers. When this is the case, wouldn't it be prudent to allow worthy buyers to assume FmHA loans at written rates? Anyone can assume a V.A. loan at original interest.

Answer: Any eligible low or moderate income applicant may assume a section 502 loan at the original rates and terms provided that any amounts delinquent can be repaid by the new applicant within a reasonable period of time. If the loan requires reamortization, then new rates and terms are required under current regulations. If the borrower is of low income, interest credit may be granted on the reamortized loan to lower the payments to an affordable level. A change in rates and terms is also required if the applicant has an above moderate income or is not eligible for a program loan.

Question: Allow FmHA homeowners to carry part of their equity on a second deed of trust?

Answer: Present FmHA regulations do permit a transferor to carry all or part of a borrower's equity on a second deed of trust.

This is not a frequent practice since in most cases the seller needs his equity for a downpayment on another home.

Question: Require that FmHA applicants put up a downpayment -- maybe 3-5 percent before obtaining a loan. As it stands now, many buyers have little to lose by just walking away from their FmHA financed houses. In many instances payment is lower than rent would be.

Answer: It is the mission of the rural housing program to serve low income households that lack the ability to obtain adequate housing from any other source. Certainly, a 3-5 percent downpayment would encourage borrowers to pay their loans and not walk out of their homes. However, it would be prohibitive to most low income households to make a $1,000 to $2,000 downpayment on a home. To make this a requirement would eliminate many good families from ever owning a home.

INTEREST RATE ON RESCHEDULED LOANS

Question: On rescheduling or reamortizing a FmHA loan, what criteria do you use to set the interest rate? Present rate is 10.25. If the present loan is over, do you adjust down? If under, do you adjust up?

Answer: The current interest rate charged for loans is used in rescheduling or reamortizing. For example, if an existing 14.5 percent interest rate regular operating loan is rescheduled and the current regular operating loan interest rate is 10.25 percent, the interest rate charged for the rescheduled, regular operating loan would be 10.25 percent. If the existing regular loan had been made at an interest rate below the current rate, it would be rescheduled at the current rate of 10.25 percent.

Question: Farmers should have a chance to maximize their financial position by reducing recent high interest loans instead of applying liquidation receipts to earlier low interest loans.

Answer: The application of payments to FmHA accounts with the highest interest rates would not always be in the best financial interest of the Government. FmHA accounts with lower interest rates could be seriously delinquent and/or inadequately secured.

Regular payments are distributed to FmHA accounts in the following order: first to accounts with advances due for annual operating expenses, second to accounts in proportion to the accounts due for the year, and last to accounts in proportion to the delinquencies. Extra payments are distributed to accounts having the highest priority of lien on the security from which the payment was derived.

FmHA HOUSING LOAN ASSUMPTIONS

Question: A case in Idaho. It takes six months for an eligible credit worthy buyer to assume an FmHA loan on a house. When there is no evidence of complication, why can't these cases be expedited in favor of the more complicated loans?

Answer: In the past, applications for housing assistance were processed by FmHA in the order received. Processing instructions were recently implemented which will give priority to processing applications for those wishing to assume loans on FmHA financed homes. We are sure this change will allow our staff to provide better service in a more timely manner to existing borrowers who are selling their homes.

REDUCTION IN FmHA REGULATIONS

Question: There are 17 volumes of FmHA regulations. What has been done to summarize these regulations?

Answer: The master copies of FmHA regulations are contained in 10 volumes in the National Office. These include program regulations for administering some 38 different loan and grant programs as well as regulations involving internal personnel and administrative functions. A considerable portion of our regulations are devoted to prescribing policies and procedures for compliance with statutory and regulatory requirements, such as the National Environmental Policy Act of 1969, National Historic Preservation Act of 1966, and the Davis-Bacon Act. Each State Office issues supplements to national regulations to comply with State law.

We have an ongoing effort to simplify regulations and to identify and eliminate unnecessary and duplicative material.

We also have a program under Executive Order 12291 to review existing regulations. As part of the review, unnecessary regulations can be identified and action taken to remove them.

We are currently working with our Office of the General Counsel on reducing the volume of regulations published in the Federal Register. We expect to achieve a substantial reduction in this area.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

DISASTER AREA DESIGNATION

Question: The Governor of North Dakota has on three separate occasions requested that 13 North Dakota counties be designated disaster areas due to the effect of severe weather in North Dakota this past crop year. Only one county has received that declaration to date. What action have you taken to get approval for the other 12 counties?

Answer: The situation is under review at this time. If conditions warrant, these counties will be designated as soon as possible.

QUESTIONS SUBMITTED BY SENATOR KASTEN

BACKLOG IN PROCESSING HOUSING LOAN APPLICATIONS

Question: Wisconsin FmHA offices are experiencing a backlog in processing loan applications. This has been evident the past several months and has resulted in unfavorable press for the Agency in the State. Constituents have been told by FmHA personnel that processing of their loan applications will take approximately 18 months to two years. What do you know of this situation?

Answer: The situation you are refering to deals with our rural housing loan programs. The primary cause of the delay is the fact that FmHA generally receives a greater number of applications than it has resources to handle. The Agency's established priority on the timely processing of farm loans and the policy of emphasizing loan servicing could tend to aggravate any application backlog problems until the priority activities are accomplished. We intend to have our field staff increase their efforts in processing housing loan applications.

Question: What is causing the hold up in processing loans?

Answer: The delays are due to the large number of housing applications we have received, now estimated at 5,500 for the State, and the limited number of loan officers available to handle the demand. We plan to hire additional personnel to assist in solving this problem and as the demand for farm loans drops this summer our resources will once again be directed to processing rural housing loans.

ADDITIONAL STAFF FOR WISCONSIN

Question: It is my understanding that Wisconsin has begun the process of hiring additional personnel but with the training necessary for them to effectively administer FmHA programs, they will not begin to service the public until July 1. Present conditions warrant that this move is not timely. Is there any way that these people can be moved into service within the next 30-60 days? If not, is there an alternate solution?

Answer: We are proceeding as rapidly as the regulations will allow to fill vacant positions. Many will be filled in the next 30 to 60 days. The State Director may detail employees from other areas of the State to assist in the busiest offices. In addition, a limited amount of overtime may be authorized so that field offices can provide additional loan counseling and process loan applications. We would expect our new employees will become effective as rapidly as possible.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

METHODS OF IMPROVING FmHA's EFFECTIVENESS

Question: The members of the Senate are aware of the need to provide interim assistance to some farm operators and new farmers who cannot obtain financing through commercial outlets or the farm credit programs. However, I am increasingly concerned as to whether our current FmHA programs and procedures are really delivering this assistance in the most effective manner possible. We always seem to be reacting to one "crisis" after another...always trying to play catch-up rather than having a smooth functioning, effective, efficient operation of the programs.

My question then would be, have you and your staff been able to explore alternate methods by which the Government could improve the efficiency and effectiveness of the FmHA farm loan programs--whether by changes in the structure of the present system, incorporation of participation by the private sector in distributing and servicing loan accounts, or a blend of these? If not, would you be able to study this area and make suggestions to the Congress in the near future?

Answer: We are constantly seeking ways to improve and many alternatives have been considered such as contracting services. The private sector has not responded to the guaranteed farm ownership loan program to the extent desired and this authority is under further study. We will continue these efforts and keep the Congress advised.

Question: Along the same lines, would you give the subcommittee your thoughts about any alternative solutions we might be able to consider regarding the existing portfolio of farm operating and ownership loans. It seems we are facing several problems with respect to these accounts. A significant number are in serious arrearage and some will require foreclosure or voluntary liquidation. The sheer amount of time involved in handling these problem loans appears to mitigate against the other borrowers in the program who are not having such serious problems. In your opinion, is it possible--or even advisable --to consider alternate methods of servicing some of the present FmHA loan portfolio by either discounting to private sector lending institutions or offering a discount to the borrower on the outstanding balance?

Answer: FmHA is considering alternative methods of providing for the servicing of its loan portfolio. Authorities now exist to sell notes to investors in the private sector. We are using private contractors in six States to investigate and report facts relating to the unauthorized disposition of chattel security. This is on a pilot basis. Real estate brokers are being used by many State Directors to assist in finding buyers for inventory property. Our Debt Settlement regulations are in process of being revised to conform with the Debt Collection Act of 1982. Coordination of these activities with our loan servicing and delinquency reduction goals is allowing us to keep control of the situation during this period of stress.

It is noteworthy that the majority of the farmer program borrowers are not in arrears and the economy in the farm sector is improving.

Questions Submitted by Senator Eagleton

USE OF FY 1983 RURAL HOUSING FUNDS

Question: Your 1984 legislative proposal will lead to termination of FmHA rural housing programs. We note that your fiscal year 1983 performance indicates a reluctance to use this year's appropriation. Over 40 percent of FY 1983 had passed as of February 28 and on that date you had committed:

-- Section 502 rural housing loans	26.1 percent
-- Section 504 repair loans	7.7 percent
-- Section 504 repair grants	24.3 percent
-- Section 515 rural rental loans	3.5 percent
-- Section 521 rental assistance	4.4 percent

Why have you been so slow to utilize these funds?

Answer: Farmers Home Administration has directed its staff resources toward agricultural lending in response to heavy seasonal needs for farm credit. Housing loans have, of necessity, been relegated to a lesser current priority.

The greatest demand for farm loans will soon pass and FmHA will again return to more balanced levels of activity. The heaviest demand for housing loans throughout most of the country is from late spring until fall. Therefore, in spite of the heavy farm activity of early spring, the Agency expects to use all of its available funding for housing loans.

RENTAL ASSISTANCE PROGRAM

Question: This committee played the lead role in appropriating rental assistance funds for this year. We provided funds for 7,000 renewal units and 4,750 new units, yet you had approved only 521 renewals and no new units through February 28. Is there no need or demand for rent subsidy? Why have so few rental assistance contracts been signed?

Answer: As of April 11, 1983, 986 renewal rental assistance units and 20 new construction rental assistance units have been obligated by the Agency. We foresee no obstacle to prevent rental assistance units allocated for renewal purposes from being fully obligated this fiscal year. Rental assistance units allocated for new construction are being obligated slowly due to their close link to the normal yearly funding pattern of the multiple family rental housing programs, and the timing of the availability of these units. We will continue to monitor the situation and will make necessary adjustments to the allocation process if needed, during our normal pooling of funds, scheduled for July 22, 1983.

Question: On January 17, 1983, you issued field allocations and guidelines for use of this year's rental assistance program. We are concerned with aspects of that issuance which appear to stymie use of this program.

--Projects must be completely feasible without RAP before they can be considered for it.

--Elderly projects get first crack at the RAP units, regardless of the priority weights for other projects.

--RAP is prohibited in migrant projects.

The announcement seems to violate your own published rules. Why were these changes in priorities not published for comment nor brought to this committee's attention by the Department? Will these changes limit your ability to fully utilize these funds?

Answer: Administrative Notice 799 (1940), "Rental Assistance (RA) FY 1983 Allocation", was issued on January 17, 1983, in accordance with our regulations. The guidelines of Administrative Notice 799 were established to direct the few units received in the fiscal year 1983 appropriation for new construction purposes on an equitable basis to all States and to those projects which could best meet the objectives of the program.

In the past, the majority of rental assistance units allocated for new construction purposes were for a 20-year period and the Agency had provided additional rental assistance units to projects on an as needed basis if the demand increased beyond the initial allocation. During fiscal year 1983, new construction units are for only a 5-year term and the Agency is deemphasizing the use and expansion of costly long term tenant subsidies to make multiple family rural rental projects financially feasible. Consequently, units will be made available for projects with a strong local market for rental housing, which means they will be feasible with or without the availability of a deep subsidy.

The Agency has established a priority for providing rental assistance to elderly persons because many elderly residents live on low, fixed incomes and are less able to leave their local communities in pursuit of suitable safe and sanitary rental housing.

Since so few units are available this year, we are directing rental assistance units for labor housing to year round projects, since the need for the subsidy is for a longer duration and a higher level than seasonal projects.

Question: If rental projects must now be fully feasible without RAP being applied to them, won't this limit your ability to serve the housing needs of the very poor in rural areas?

Answer: By directing rental assistance payments to those projects which are feasible without a deep subsidy, the Agency feels that the very poor may be better served than by funding projects permanently dependent on rental assistance. If a project is feasible without rental assistance, that means it is located in a strong local market that needs rental housing and can support an appropriately sized multiple family housing project well into the future. When the project is rented, any eligible applicant can be considered for occupancy or placed on a waiting list. By providing rental assistance, those rural households with the lowest incomes can become tenants. By funding projects that are feasible without rental assistance, the Agency assures that the project will not fail if in the future rental assistance is not available. In addition, by controlling the percentage and number of rental assistance units in each project, the Agency is making the limited 4,750 new construction rental assistance units available to all States on an equitable basis.

RURAL HOUSING PROPOSED LEGISLATION

Question: Without the section 502 and 515 programs, will not rural builders lose the potential for significant new business?

Answer: We do not believe that builders will lose the potential for new business. In fact, in 1979, Farmers Home Administration lending accounted for slightly less than 10 percent of all lending in rural areas. Conventional lending through private banks and mortgage bankers continues to be the major source of housing credit.

A major element under the President's economic recovery program is a reduction in Federal borrowing commitments needed to relieve pressures on interest rates and to open the way for noninflationary and sustainable economic growth. As this role is filled by the private banking industry and Federal domination of credit markets diminishes, builders and others in the related building trades will be the beneficiaries, as well as members of the general public who are seeking home mortgages.

Question: Your block grant legislation authorizes $850 million for each of the next five years. Supposing we go ahead for 1984. Will your budget request remain at that level for the ensuing four years?

Answer: The proposed legislation contains a request to authorize for each of the fiscal years 1984, 1985, 1986, 1987, and 1988 an amount not to exceed $850,000,000 each year. Specific budget requests, however, will depend on the economic situation and the other factors which affect the need for appropriations.

Question: A basic premise of the proposed housing block grant is that the States can do a better job than FmHA. Has there been any effort made to determine the capability of the States to carry out this program?. If so, tell us what you have found out about the rural housing capacity of each individual State.

Answer: As I indicated previously, the Office of Rural Development Policy of the Department of Agriculture conducted an informal survey of officials of State and local governments and housing related organizations to determine their attitudes regarding the proposed legislation. The majority of those questioned were in favor of the block grant concept.

In addition, the President created a Federalism Advisory Committee chaired by Senator Paul Laxalt. The work of that committee and its suggestions have been incorporated into the rural housing block grant program. The President also contacted many State and local officials throughout 1982 and early 1983 and the proposed legislation reflects many suggestions from those individuals.

RURAL HOUSING SERVICING

Question: Section 502 inventory property has increased from 6,870 units on December 31, 1980 to 13,376 units on February 28,1983.

We hear complaints about your stepped-up servicing program, and I have several questions in this area.

Question: Hasn't the focus on servicing and delinquency led to a concerted effort to remove people from their homes?

Answer: Quite to the contrary. The focus on the need to service accounts and reduce delinquency has been made solely for the purpose of assisting FmHA housing borrowers in becoming successful homeowners. It is our aim to reduce the number of borrower failures which may result in liquidations. The Agency will not liquidate any housing borrower if a satisfactory method can be worked out with the borrower, such as providing additional partial payment agreements, interest credit assistance or moratorium on payments.

RURAL HOUSING INVENTORY

Question: If the unsold inventory is increasing and partially unsaleable within the 502 program, why won't you authorize transfer to the section 515 rental program?

Answer: Most of the inventory properties which are not sold within the 502 program are unsuitable because of the characteristics of the house such as age, size, or it's location. Housing which is not suitable for the 502 program would likewise be unsuitable for the 515 program. In cases where we have 502 properties in inventory, we find as a general rule that the properties are not located in an appropriate market area that would provide the necessary economic feasibility for rental housing.

Question: Would additional authority be needed for you to rent inventory houses with or without an option to buy to individuals?

Answer: No. Inventory houses can now be leased with or without the option to purchase. However, sale is preferred to lease, and efforts are not made to lease a property unless it is clear a sale cannot be made in a short period of time.

Question: Why did you pick the middle of a severe economic recession to engage in a tough servicing compaign?

Answer: When this administration took office, one of our major priorities was to reduce the exploding delinquency problem that was evident in the Agency's housing portfolio. However, I can assure you that everything possible is being done to accommodate the delinquent borrowers. Extensions, payment moratoriums, and partial payment agreements are some of the methods being used to assist borrowers and avoid foreclosures or voluntary transfers. We have a much greater potential for success if we take immediate followup action with borrowers when payments are not made on time. This success is reflected in the fact that the number of monthly payment delinquent accounts has been reduced from 218,114 in August, 1981 to 170,857 in March of 1983.

Question: What is being done to sell the current inventory of housing?

Answer: The Agency has initiated actions to aggressively sell inventory properties. If Farmers Home Administration field personnel are not successful in selling inventory, or other priorities dictate that staff resources be used for other purposes; the properties are listed with private real estate brokers. In some locations, sale by sealed bid and/or public auction has been authorized for disposal of houses not suitable for the section 502 housing program. We have increased the number of houses sold from 7,081 in 1981 to 10,638 in 1982.

Question: How much is it costing on a monthly basis to carry these houses?

Answer: The period of time a section 502 house is held in inventory varies considerably, however, on average it is about a year. The estimated cost for maintenance, security, taxes, vandalism, repairs, and interest is approximately $4,506 per unit annually. Thus the average monthly unit cost is $376.

ALTERNATIVE DESIGNS FOR RURAL HOUSING

Question: Housing costs continue to rise. As available funding resources shrink or remain constant, have you given real attention to alternative kinds of housing?

Answer: We have encouraged cost savings by reducing the maximum size of the dwelling and eliminating amenities such as two car garages. We encourage the building of a minimum adequate dwelling which meets the needs of the family. We encourage the use of the minimum size lot needed to support a dwelling. We are studying alternative kinds of dwellings, most of which have substantial decreases in livability factors without substantial savings in cost. Many times these dwellings will have reduced marketability which must be considered in order to properly protect the Agency's security.

Question: Will you adopt more flexible minimum property standards (MPS) to encourage new, cost-saving designs?

Answer: We are continuing with the minimum property standard which was in effect September 1, 1982, and studying the effects of a lesser standard. We believe that most cost-saving designs can be developed within the current minimum property standard, and a lesser standard is not desirable. A lesser standard may be more of a quick fix rather than a long range solution to the problem of high cost housing.

Question: Will you permit smaller starter houses which can be added to later, but not necessarily in the present, strictly adhered to manner?

Answer: We have always permitted starter homes that can be expanded as needed by the family. Such homes as the cape cod and split foyer with only one level completed are good examples. We will continue to permit these and other designs when the cost is not prohibitive.

RURAL HOUSING RESEARCH PROGRAM

Question: What will be the impact of termination of the rural housing research program by the Agricultural Research Service on your program?

Answer: Although energy saving designs and economical septic systems have been developed by the Agricultural Research Service for use in conjunction with the FmHA housing loan program, their housing research program was not extensively funded. In the future FmHA will rely on the private sector to provide housing research and testing.

GUARANTEED ECONOMIC EMERGENCY LOANS

Question: In the FY 1983 Agriculture appropriations bill we provided you with the authority to commit $600 million to guaranteed economic emergency loans. Have any of these loans been made to date? Please explain why no loans have been made?

Answer: No guaranteed economic emergency loans have been made in fiscal year 1983. The loan authority for this program expired on September 30, 1982. The program is now being held in abeyance.

FARM OPERATING LOAN FUNDS

Question: It is becoming increasingly clear that your loan funds will be inadequate to meet the demand for operating credit this year. What is your view on this?

Answer: We pooled unused operating loan funds at the end of the second quarter and are now evaulating the needs of States who are out of funds to determine distribution of pooled funds. We are consulting with the Office of Management and Budget regarding alternatives for additional funding.

Question: Do you have any data on how many farmers have been denied operating credit by FmHA so far this year?

Answer: Our records will show how many requests were denied when March quarterly reports on applications received, processed and on hand are completed. Appeal records would also enter into the picture. At this point in time, we are still accepting applications. There are temporary delays for operating loans in States where funds are exhausted, but none have been denied due to lack of funds.

EMERGENCY DISASTER LOAN LIMITS

Question: What purpose is served by placing a limit on funds available for the emergency disaster loan program? Do you intend to stop making disaster loans when these funds are fully utilized?

Answer: A limit is needed on emergency disaster loans in order for congressional control of Federal credit. However, we believe the requested $1.54 billion for emergency disaster loans will meet the anticipated need for this program. If additional funds are needed, we can request a supplemental appropriation.

Question: Due to changes in the emergency disaster loan program, funds from that program are no longer available for follow-on credit to farmers who had suffered a disaster. Those who previously received credit through this program and the economic emergency program must now apply for funds through the regular operating program. How many individuals have been cut off from follow-on credit as a result of these changes in law and what is the approximate level of loan funds they had been receiving ?

Answer: We estimate that on September 30, 1982, 25,000 borrowers indebted for emergency disaster loans lost entitlement for follow-on credit due to the change in the law. Of these 25,000 borrowers, it is anticipated that 10,000 will need 1983 production loans from FmHA amounting to approximately $600 million.

FY 1984 OPERATING LOAN REQUEST

Question: Will the requested level of operating loans be adequate to meet the financing needs of these individuals and still have funds to provide loans to new borrowers?

Answer: The requested level represents consideration for an increased number of loans, increased average size loan and expiration of eligibility under emergency disaster loan program. In 1982, 21,310 initial operating loans were obligated for a total of $734 million and 23,609 subsequent operating loans were obligated for a total of $516 million. We believe the requested level of $1.8 billion will be adequate.

RESCHEDULING AND REAMORTIZING REGULATIONS

Question: This committee directed you to take action to finalize your regulations relating to rescheduling and reamortizing of operating loans in line with what your Agency had proposed in July of 1982. That proposal would have allowed reamortizing at the lower of the current rate or the rate at which the loan was originally made. What has been done to finalize this regulation which FmHA stated would "permit borrowers to devote more of their own funds, derived from net income, to future operating and capital needs, thus increasing the borrower's ability to obtain credit elsewhere, and reducing the demand for FmHA loan funds."

Answer: The final rule making action is being reviewed by the Office of Management and Budget. However, since our interest rates have recently declined, there are a greater number of cases where the current interest rate is lower than the interest rate on the existing note. Under present FmHA regulations, loans can be rescheduled or reamortized at the current interest rates.

AVERAGE OPERATING LOAN AMOUNT

Question: The administration is proposing legislation which would increase the loan limit on operating loans to $150,000. What is the current average operating loan made today? How many loans were made in 1982 between $80,000 and $100,000?

Answer: The current average insured operating loan is $31,541, up 12 percent from one year ago. As of March 31, 1983 the initial insured operating loan average was $38,426 while the average subsequent loan was $26,634.

Obligations of loans are not recorded by increments and we are unable to advise you of the number of loans made last year which exceeded $80,000. However, the $150,000 limit applies to total insured operating loan indebtedness, not individual loan amounts. Numerous cases have come to our attention which indicate the $100,000 insured operating loan limit is not adequate for start up and economic stress periods in agriculture.

EMERGENCY DISASTER LOAN REGULATIONS

Question: We have had numerous discussions over the past few months regarding the emergency disaster loan program. I understand that just yesterday OMB approved changes in your regulations which you believe will meet the criticism the Comptroller General made regarding the availability of this program to individual farmers. Will you describe these changes for the committee?

Answer: The objective of this action is to revise the emergency disaster (EM) designation regulation FmHA Instruction 1945-A, to more clearly demonstrate compliance with the Agricultural Credit Adjustment Act of 1978, Public Law 95-334, as amended, and its interpretation by the Comptroller General of the United States. It also makes changes in delegated authorities. This action will enable the Farmers Home Administration Administrator to make EM physical loss loans available when it is determined that one or more farmers have suffered severe physical property losses due to unusual and adverse weather conditions. It restates guidelines for the Secretary to follow in making EM loans available when it is determined that severe production losses have occurred in a county or similar political subdivision which resulted in at least a 30 percent reduction of the normal year's dollar value of all crops in the county, including hay and pasture. This action will also enable the Secretary to make EM loans available when a single enterprise suffers a loss countywide of at least 30 percent of its normal year's dollar value. In addition, when unusual and adverse weather conditions cause significant production losses (less than 30 percent countywide production losses), and extenuating circumstances exist which warrant a natural disaster determination, the Secretary of Agriculture may exercise his discretionary authority and direct the FmHA Administrator to make EM loans available in any county.

Question: As I understand the changes that are being proposed--first, the State FmHA Director will no longer be delegated any authority to make the disaster loan program available to small numbers of farmers due to production losses from natural disasters, that Governors must submit requests for assistance in all cases, and that a gap still exists in the program whereby a farmer could suffer a qualifying production loss but still not have the program available to him.

The Comptroller General's opinion stated, "...the Secretary does not have the discretion to establish a procedure...which systematically excludes those farmers which the Congress intended the program to benefit." To quote further, "it is clear that the Congress intended that the administration stop following the area designation procedure and begin determining disaster loan eligibilty on a case-by-case basis after the 1978 amendment...." How do these changes possibly address this criticism?

Answer: After reviewing the Comptroller General's opinion, Farmers Home Administration determined that it would be in the public interest to further amend the regulation to clarify the method by which the Secretary determines that a natural disaster has occurred. The revisions maintain key elements of the previous rule; define more clearly what constitutes a natural disaster; provide a more rapid basis for dealing with certain physical property losses; and focus such decisionmaking as is necessary in two officials, the Secretary and the FmHA Administrator, on the basis that this will also expedite natural disaster determinations.

The changes made by the interim rule recognize that a natural disaster includes consideration of both the adverse weather event and whether farmers are substantially affected by losses caused by the event. When one or more farmers have suffered severe physical property losses, the Administrator is able to immediately make emergency disaster loans available. In case of production losses, the Secretary's decision on whether a natural disaster has occurred is based on adverse and unusual weather conditions or natural phenomena that result in production losses of either at least 30 percent of the normal year's dollar value of all crops countywide or at least 30 percent of the normal year's dollar value of a single farming enterprise, countywide or other extenuating circumstances. The Secretary will make such determinations of severe specified production losses only after receiving a request from a Governor or Indian Tribal Council.

Requiring Governors to submit requests for EM assistance is not a change in the regulation, but a practice to be continued.

The use of the 30 percent countywide loss, or 30 percent loss to any single enterprise criteria is not for the purpose of limiting emergency loan assistance to a particular area, but for the purpose of determining whether the adverse weather had the type of impact to warrant it to be a natural disaster.

Question: Information recently provided the subcommittee in response to a question I raised with Secretary Block when he appeared before us earlier this year indicated the following: "Deferrals are decreasing and may continue to do so as farmers realize that deferred payments accumulate unwieldy interest, and rescheduling/reamortizing provides the relief they need without accumulating unmanageable future payments." As you well know, there has been a great deal of interest around here in getting you to use the deferral authority you have a little more often. The statement I just read, however, concerns me in that we may be pushing for the wrong thing. Would you please explain the differences between the deferral option and rescheduling or reamortizing a farmer's loan.

Answer: The deferral option can be used when a loan is made or in connection with a servicing action, such as consolidation, rescheduling or reamortization. Deferment is to postpone the payment of part of one or up to three installments. Loan installments are due annually on FmHA farm program notes. When a borrower's note is rescheduled or reamortized, the rates and/or terms are rearranged. A postponement of payment of most of the installment is possible with deferment but generally the borrower finds reducing the amount of annual installment by rescheduling or reamortization provides adequate relief of cash flow demands. If a borrower makes only small payments under a deferral for three years, he finds the accumulated accrued interest may be difficult to manage. At today's farm ownership interest rate, the total annual accrual on a $100,000 note is $10,750. With a three-year deferral and making minimal payments of $750, an unpaid interest of $30,000 will accumulate.

BORROWERS' APPEAL RIGHTS AND SERVICING OPTIONS

Question: We have had numerous discussions in the past regarding the lack of any specific document that FmHA can give to its borrowers which details a borrower's appeal rights and the various servicing options that are available to him or her. It is my understanding that an effort was under way to develop such a document. Where does this stand now and when might we expect something in final form?

Answer: Form FmHA 1924-14 was placed in use in 1982 and outlines "Available FmHA Loan Servicing Options". The options listed are: consolidate, reschedule, reamortize, and defer. The borrower is advised on the form, that they may inquire about the options that FmHA will consider. Each option is briefly defined. The form also explains borrower responsibilities. It is signed by the borrower and the FmHA county supervisor after discussion. The form is required for all prospective and existing farmer program insured borrowers when obtaining an initial or subsequent loan and during the preparation or revision of the farm and home plan.

FARM OWNERSHIP ALLOCATION TO MISSOURI

Question: The notes indicate about a thirty percent decline in the amount of FmHA farm ownership funds that will be expended in Missouri between FY 1982 and FY 1984. Please explain the reason for this decrease and any changes in allocation procedures which are resulting in this.

Answer: The 1982 figure of $43,001,260 represents actual obligations. Missouri's initial 1982 allocation was $33,600,000, which is 5 percent of the total available. The anticipated obligations for 1983 are $35,530,000 and for 1984 are $29,478,000. These amounts are 4.5 percent of the total available in these years. A National Office reserve and administrative adjustments can respond to any critical shortages, as demonstrated by the 1982 increase of $9.3 million provided to Missouri. FmHA allocation methodology is reviewed annually to determine if refinements are needed to insure that program purposes are met and that the allocations are equitable.

FmHA LOANS FOR DAIRY OPERATIONS

Question: Is FmHA currently extending loans to individuals to purchase or start dairy operations?

Answer: FmHA is not making loans to start new dairy operations. Restrictions have been placed on making loans to new producers or for new or expanded facilities.

FARM CONSERVATION PRACTICES

Question: Is FmHA currently requiring their borrowers to follow approved conservation practices in their farming operations?

Answer: FmHA has always placed emphasis on conservation of natural resources and will continue to do so.

FmHA APPEAL PROCESS

Question: If a farmer does not agree with a farm plan developed for him by the county supervisor, is there any procedure or appeal process available to him to obtain a change in this farm plan?

Answer: The farm and home plan is developed by the applicant with guidance from the county supervisor and reflect input from both parties. The farmer presents records of expenses, yields, and gains on livestock and animal unit production. When these records are presented at the outset of planning, the plan developed should reflect realistic potential. The appeal process is available when an adverse decision is based upon lack of repayment ability.

Question: Currently, the appeal process available to farmers on adverse actions is strictly an internal one. Some have suggested that farmers be afforded the opportunity to have their cases receive a final appeal if they so choose before an administrative law judge. Would you please comment on this suggestion.

Answer: We would be apprehensive in administering a loan program to carry out the intent of Congress subject to reviews by an administrative law judge. There are many factors other than legal ones involved. Credit decisions are tied not only to potential of the production unit but the ability of the operator to manage. The internal appeal process provides for an objective review by persons not involved with the decision and who are knowledgeable of FmHA's mission, authority and responsibility.

FEDERAL CROP INSURANCE PREREQUISITE

Question: Is FmHA considering requiring its borrowers to obtain Federal crop insurance as a condition of eligibility for loans?

Answer: We proposed legislation to provide that, at the discretion of the Secretary, when Federal crop insurance is generally available to producers in an area, emergency disaster loans will no longer be available. Enactment of the proposal would provide an incentive for farmers to move toward participation in the crop insurance program rather than rely on the availability of subsidized loans to recover from disaster losses which may threaten their financial ability to remain in farming. The prospect that loans would become available in event of such loss has encouraged some farmers to assume otherwise unacceptable financial risks. More reliance on crop insurance should provide farmers with incentives to reduce their risk of sustaining severe financial loss.

FARM SUPPLY INDUSTRY

Question: In lieu of the substantial sign-up for the PIK program and the financial impact this is going to have on the farm supply industry, would it not make sense to continue to have funds available for the business and industrial loan program in FY 84 as a safety net for those businesses?

Answer: We feel guarantees from the Small Business Administration and regular lending forces will provide the funds needed by these businesses.

COMPENSATION FOR CONSTRUCTION DEFECTS

Question: What impact will the recent Supreme Court decision of Block v. Neal, relating to housing defects have on your need for funds to repair defects in FmHA financed housing?

Answer: We believe the Supreme Court decision will have no affect on our need for compensation for construction defects funds. We will continue to administer the compensation for construction defects program to pay for necessary repairs to a borrower's dwelling. We believe any suits originating from the Supreme Court decision of Block v. Neal will be to obtain compensation for items not eligible for payment under the compensation for construction defects program such as alleged inconvenience, anguish, and loss of expected property appreciation.

The Supreme Court decision, as we understand it, did not determine liability of the Government in this case but merely ruled that a borrower has the right to sue the Government for any loss resulting from an alleged failure to properly inspect construction work.

STAFF RESOURCES FOR HOUSING PROGRAMS

Question: The notes indicate a substantial decrease ($25 million) in the level of staff funds that will be used in support of low-income housing assistance. Should the Congress reject the block grant proposal and maintain funding for the housing programs at current levels, how would this impact on this presumed decline in staff resources needed to oversee the housing programs?

Answer: The proposed decrease in funds for support of low-income housing assistance is primarily related to reduced workload resulting from the block grant proposal. If 1984 funding for the housing programs were maintained at current levels, staff resources would be needed to administer the programs.

RENTAL ASSISTANCE RENEWAL AGREEMENTS

Question: What level of funding is necessary to allow 5-year renewal contracts to be signed on all rental assistance units that will be up for renewal in FY 84 and how many units does this represent?

Answer: To renew expiring rental assistance contracts during fiscal year 1984, $62 million is needed to fund 6,000 units in an estimated 667 existing agreements. This level of funding is based on current information and represents the Agency's best estimate of renewal need.

JOINT FUNDING OF RURAL HEALTH CENTERS

Question: What is the Farmers Home Administration doing to reactivate the joint program with the Department of Health and Human Services in respect to financing rural health centers in medically underserved areas?

Answer: The Farmers Home Administration is working with the Department of Health and Human Services regarding legal aspects of the Orphan Drug Act and the effect on our Memorandum of Understanding. We are also conferring with the Department of Health and Human Services on ways to improve implementation of the Memorandum of Understanding to ensure that assistance is provided to organizations that are likely to remain viable in the future.

Question: It is our understanding that legislation which Congress passed last year corrected the deficiency in the HHS authority which led the GAO to direct FmHA and HHS to stop the program.

It is also our understanding that the joint agreement expires September 30, 1983. In view of the fact that the program was on hold for nearly two years, we would assume that your Agency and HHS would want to renew the agreement for an additional number of years. What steps are you taking to extend this agreement?

Answer: The Orphan Drug Act, Public Law 97-414, dated January 4, 1983 clarifies the repayment of FmHA loans made under the memorandum for the construction of new facilities. We are working with the Department of Health and Human Services to develop a new agreement with special emphasis on servicing existing FmHA loans closed under the present agreement. We will also consider funding new applications received from primary health care centers having the highest priority and which will serve the largest number of rural residents.

April 6, 1983

The Honorable Thomas F. Eagleton
Ranking Minority Member
Subcommittee on Agriculture and
  Related Agencies
Senate Appropriations Committee
United States Senate
Washington, D.C. 20510

Dear Tom:

As your subcommittee has oversight responsibility for rural housing programs and will be holding a hearing tomorrow on 1984 budget proposals, I would like to bring to your attention a troubling issue that has arisen on the allocation of funds under the Rental Assistance Program.

On January 17, 1983, the Farmers Home Administration (FmHA) issued Administrative Notice Number 799 (1940), changing current rules about the allocation of Rental Assistance units to new construction projects funded under the Section 515 Rural Rental Housing Program. As I understand the new policy, it would limit the allocation of Rental Assistance to no more than 40% of the units in any rural rental housing project which qualifies under FmHA's Interest Credit Plan II. That plan calls for a 1% subsidized interest rate on the Section 515 construction loan. The effect of this policy will be to prevent the construction of rental projects in rural areas which frequently require Rental Assistance for 90% to 100% of the units.

In Maine, the policy will eliminate two proposed rural housing projects, at the top of the state's priority list, one of which requires 100% Rental Assistance and the other close to 90%. Further, both projects are located in Washington County, the poorest county of my state. Implementation of the plan will thus preclude altogether the construction of FmHA rental housing projects in the poorer, more rural parts of Maine. Instead, it will channel Rental Assistance funds to more urban areas of the state with individuals of higher income. This, I believe, is contrary to the mission of the Farmers Home Administration, which is to provide credit to low-income persons in the most rural parts of the country.

My concerns about this new policy are both procedural and substantive in nature. With respect to procedure, the Farmers Home Administration has implemented a new rule which supersedes existing policy on Rental Assistance without submitting it in proposed form for public comment and without so advising Congress. In my opinion, the change in the allocation of Rental Assistance is fundamental, such that it should be subjected to public as well as Congressional scrutiny for an evaluation of its impact and its consonance with Congressional intent in enactment of the program.

On substantive grounds, it seems that the policy is a contradiction in terms. First, the Farmers Home Administration is precluding Rental Assistance to most subsidized rental housing projects in rural areas if that Assistance would make them feasible. However, rent subsidy programs are most often used by developers for the very purpose of making projects feasible for low and moderate income families and elderly persons. Without subsidy to moderate rent levels, persons with such income simply cannot afford to pay the rent commanded by today's construction costs. Second, the policy contradicts the ranking formula currently used for Section 515 projects. That formula gives the greatest number of points to the smallest communities which have the highest percentage of substandard housing and the persons with the lowest income.

While the alleged reason for promulgation of the policy is to spread out the relatively small number of Rental Assistance units appropriated this year among the largest number of projects, the policy itself will bring about curious results if the poorest persons in rural areas cannot benefit from federal rural housing programs.

It would appear that the new policy is aimed at frustrating the use of Rental Assistance funds by driving its allocation toward the higher end of the housing market where such subsidy is not needed. Also, the Farmers Home Administration seems intent on substituting its judgment for that of Congress by attempting to justify the plan through its assertion that Congress might not renew the Rental Assistance Program five years from now. The administration should not, in my opinion, prejudge Congressional action so far in advance. Rather, it should exercise its duty by advising Congress five years hence of the consequences of failing to extend the program.

I urge you to look into this matter and to explore the attached questions with Charles W. Shuman, Administrator of the Farmers Home Administration, who will be testifying at tomorrow's hearing.

Thank you for your assistance and your attention to this matter. I believe it is vital to the interests of low-income persons who reside in rural areas.

Sincerely,

George J. Mitchell
United States Senator

Questions Submitted by Senator Mitchell

RENTAL ASSISTANCE REGULATIONS

Question: What is your intent in issuing FmHA Administrative Notice No. 799 (1940)?

Answer: Our intent in issuing Farmers Home Administration Administrative Notice No. 799 was to allocate to each State their respective number of rental assistance units for new and replacement units and to give guidance in their use in accordance with existing published regulations.

Question: Does AN No. 799 (1940) change existing FmHA housing regulations?

Answer: Administrative Notices do not establish or make policy or regulation, but act to clarify existing program regulations. Administrative Notice No. 799 did not establish any new housing requirements, regulations, or new policy.

Question: Why has there been no publication of the policy for public comment?

Answer: As I indicated previously, Administrative Notices do not establish any new regulations, program requirements, or policy changes; therefore, publication in the Federal Register is not necessary.

Question: Why have you failed to advise Congress of the change in policy?

Answer: We do not feel that we changed or implemented any new policy.

Question: The effect of the policy in Maine is to preclude two proposed rural housing projects in Washington County, the poorest county in the State. How does that policy square with your own assertions that FmHA is to serve the truly needy in truly rural areas?

Answer: That may be true, Senator, because the project would not be feasible without granting 100 percent rental assistance to it. However, as I have indicated previously, we understand the intent of Congress to be that projects should be limited to not more than 40 percent of the units with rental assistance units. On the other hand, we must also try to assure the continued security of the Government's interest. Therefore, should the proposed project prove feasible without rental assistance, then the Agency would be agreeable to allocating a number of rental assistance units to the project.

Question: How is this policy consistent with the ranking formula of the section 515 program which gives priority to rural communities with persons having very low income?

Answer: Existing program regulations require that a number of points be allocated to a project which is "assured" a form of rental assistance. Because of the limited number of rental assistance units available, we have determined that no project is assured rental assistance. Therefore, once projects have been determined eligible and feasible under Interest Credit Plan II, then the Agency can allocate the units to those projects in areas of greatest need.

Question: Have you given any further instructions to State FmHA Directors that go beyond or impose additional requirements to AN No. 799 (1940) on the allocation of rental assistance?

Answer: Only further clarification as to the Administrative Notice No. 799 (1940).

Question: Will you publish the new rental assistance policy for public comment and suspend its implementation until comments are received and evaluated?

Answer: We do not feel that the Administrative Notice is a departure from existing regulations or policy. Therefore, we do not believe it is necessary to seek public comment.

Question: Current regulations give you broad waiver authority to suspend policies or rules if you find them detrimental to an FmHA program. Will you exercise that waiver authority in this instance?

Answer: Senator, since we do not consider the determinations regarding the rental assistance program to be a policy or regulation change, we see no need to exercise the waiver authority. I would add that this waiver authority is in reference to existing regulation requirements and can only be used when certain conditions exist and certain requirements are met.

RURAL ELECTRIFICATION ADMINISTRATION

STATEMENT OF HAROLD V. HUNTER, ADMINISTRATOR

ACCOMPANIED BY:
JACK VAN MARK, DEPUTY ADMINISTRATOR, REA
JOSEPH S. ZOLLER, ASSISTANT ADMINISTRATOR, ELECTRIC, REA
JOHN H. ARNESEN, ASSISTANT ADMINISTRATOR, TELEPHONE, REA
BLAINE D. STOCKTON, JR., ASSISTANT ADMINISTRATOR, MANAGEMENT, REA
THOMAS M. SCANLON, DIRECTOR, OFFICE OF BUDGET, REA
MICHAEL W. KELLY, ASSISTANT GENERAL COUNSEL, ELECTRIC AND TELEPHONE DIVISION, OFFICE OF THE GENERAL COUNSEL
ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

INTRODUCTION OF MR. HUNTER

Senator COCHRAN. Mr. Hunter, we finally get to you.

The Rural Electrification Administration is an important agency in rural America. The request this year includes a reduction of $1.9 billion in loan levels, most of which is for guaranteed electric loans. The amount requested for salaries and expenses is up $59,000 from last year. The request is for $29.6 million, including a pay supplemental. REA provides these loans to finance electric and telephone service in rural areas and provides management and technical assistance to the recipients of loans.

We have your statement, and will make it a part of the record in full at this point. We invite you to comment about the request and make any statements that you choose.

[The statement follows:]

STATEMENT OF HAROLD V. HUNTER

Mr. Chairman and members of the Committee, it is indeed a privilege to appear once again before this Committee in support of the Rural Electrification Administration budget and program proposals. I would like to begin by commending this Committee for the support that has been offered historically for REA. I think it is a great commendation for the REA program that the support from Congress over the years has been so consistent. As we look back, had it not been for the foresight of Sam Rayburn, George Norris, and other such men back in the 1930's, many parts of our great Nation could still be underdeveloped and without electricity and communications.

I feel that as Administrator, I have been given a very proud heritage; not only does that include the heritage of good support from Congress, but also the outstanding REA staff which has consistently risen to the responsibility in a very specific, exacting, and exemplary manner.

As we look at rural America, we recognize REA as an important program which has played a vital role in the development of this great country in a way which could not have been filled in any other way. Over the 48 years since its inception, REA has financed 2,000 electric and telephone organizations serving more than 14 million consumers and subscribers.

The fiscal year 1984 REA budget proposals themselves do not stray significantly from the ones we made at this time last year; however, they do represent a shift in the way this agency currently does business. Considering the current state of the economy and the burgeoning budget deficit, we feel that most of rural America will support our proposals, which have been given much consideration, and will ultimately result in the strengthening and preservation of the program. President Reagan, in his 1983 State of the Union Message, quoted Franklin Roosevelt:

"Throughout the world change is the order of the day. In every nation,

> economic problems long in the making have brought crises of many kinds for which the masters of old practice and theory were unprepared. ...The future lies with those wise political leaders who realize that the great public is interested more in government than in politics."

We feel that the time is right to make some changes in the way REA does business. The 1984 budget proposals are a beginning.

Goal of the 1984 Budget Proposals

As this budget proposal was first developed, three major identifiable and specific goals were set as priorities. The first one is to effectively use the resources entrusted to REA to meet the essential needs, both financial and non-financial, of those proud organizations whose purpose is to provide electric power or telephone service to rural America. This is the basis of the Act which gives us the authority and responsibility for which we operate.

The second goal relates to the goal of this Administration to control the growth of the Nation's debt. Total Federal credit demand absorbs too much of the capital available in the open market. Our 1984 program will reduce the Federal intrusion into the private money markets and help control the Nation's need to borrow. Again, this is appropriate as we look at an agency whose major activity and responsibility lies in the area of Federal credit.

The third goal involves the Rural Electrification and Telephone Revolving Fund from which REA insured loans are originated; this fund is in serious, near-term danger of having the total annual interest expense of the fund exceed total annual interest income. When this happens, it will signal the point in time when the net assets of the fund begin to decline, leading to the eventual inability of the agency to meet its contractual obligations without the need for appropriated funds. This situation has been recognized and defined not only by REA, but by the various organizations which support and work with REA; all parties involved agree that the situation is untenable and one which requires immediate attention. Reduced loan levels proposed in this budget, coupled with appropriate administrative actions, should be a significant help toward preventing deterioration of the Revolving Fund. The administrative actions alluded to will provide for increased use of funding from non-government sources.

The 1984 Budget Proposals

This budget, while providing for loan levels lower than available in the recent past, is adequate to accomplish the purposes set forth in our three goals. I will address these goals and each of the major programs seperately.

Electric Loan Program

For the electric loan program we are proposing $500 million in insured loans, compared to $850 million available in 1983. Although we realize that the industry's capital needs could be as high as they are this year, our proposals would require a greater borrower use of supplemental funds. The 1983 Appropriations Act includes language that prevents REA from changing supplemental loan criteria or the ratios during fiscal year 1983. Our recommendations include the removal of that restriction so that REA could take the administrative steps necessary to make changes in the ratio of the supplemental funding required to be used with the insured electric loans. We would, of course, go through the standard rulemaking process, inviting public comments as required.

For the electric guarantee program, which funds the generation and bulk transmission needs, we recommend a level of $3.235 billion, compared with the 1983 level of $4.6 billion. This reduction reflects the fact that across the Nation there is surplus generating capacity and that significant new plant additions are not being planned. We also recognize that there are generating plants currently under construction which have been halted or otherwise postponed. This is an indication that the industry itself is hesitant about planning too great an investment in new generation facilities at the present time.

Telephone Loan Program

In the telephone loan program we are recommending $75 million in insured loans, compared to $250 million for the current year. While insured telephone loans are reduced significantly, telephone borrowers have two other major financing sources at their disposal. These are the Rural Telephone Bank and the loan guarantee program. For telephone loan guarantees we are recommending $125 million, compared to $145 million for the current year, and for the Rural Telephone Bank we are recommending $185 million, the same as the 1983 level. However, in 1984 we are not recommending the purchase of Class A Stock in the Bank by the Federal government. This is consistent with the Administration's request to rescind $23.4 million of the Class A Stock made available in 1983. These funds are not needed since interest costs to the Bank have been declining and sufficient funds will be available to meet borrowers' needs. I would like to point out that the interest rate on loans from the Bank has been reduced twice so far this year. These reductions relate to the success of this Administration in lowering interest rates Nationwide.

Despite the reductions in both programs, the financial ability of rural electric and telephone systems to provide services will not be adversely affected and rates to consumers and subscribers should not increase disproportionately. We are confident that adequate credit will be available to accomplish the needed plant additions and improvements necessary to continue providing reliable electric and telephone service to rural America.

The REA Administrative Budget

The 1984 budget requests $29,585,000 for the administrative costs of the Agency. This $640,000 increase over the fiscal year 1983 enacted appropriation is necessary to cover increases in the general operating expenses of the agency, including the annualization of the October 1982 pay raise.

Employment levels in 1984 will be reduced by fifteen staff-years from the 1983 levels. This level will be adequate to effectively carry out the programs as provided in the budget.

We feel this to be a fair and responsive program. It does not abandon rural America. The entire program is consistent with the President's ultimate goal of reductions in the private sector's financial dependence on the government, and for securing the financial integrity of the Revolving Fund for the future. The President's overall economic proposals require every segment of the economy to make sacrifices. The rural electric and telephone systems should be no exceptions. In the end, all sectors of the American economy will benefit by the reduced Federal presence in the market place. REA borrowers, as a whole, will ultimately become stronger financially as they become more independent of the Federal government.

I feel the President's 1984 budget proposals for the REA programs are worthy of your consideration. I strongly urge you to support them.

This is the end of my prepared remarks. I will be happy to answer any questions you might have.

BIOGRAPHY OF BLAINE D. STOCKTON, JR.

Blaine D. Stockton, Jr., joined the Rural Electrification Administration in August 1967 and is the Assistant Administrator-Management.

Since joining the agency he has served as a program analyst, chief of the Management Analysis and Services Branch, and director of the Management Services Division. In June 1978, he received the Department of Agriculture's Superior Service Award.

Mr. Stockton completed his undergraduate work at Pennsylvania State University and his graduate work at George Washington University. He resides with his wife, Kay and two children, Jill and Scott, in Manassas, Va.

SUMMARY OF MR. HUNTER'S STATEMENT

Mr. HUNTER. Mr. Chairman, in light of the fact that my prepared statement will be in the record, I will just make some brief remarks and remain available for questions.

I want to begin my remarks with my commendation to the chairman and the committee for the excellent support that has been accorded to the Rural Electrification Administration over the years. Congress itself has been an encouraging partner with the agency, and this certainly has been comforting to the people it serves.

As Administrator, I feel that I have inherited a proud tradition. It also is a heavy responsibility. I want again to emphasize the importance of the support that has come from Congress through this committee. I want to compliment the REA staff on their professionalism, which has provided an excellence of accomplishment.

I would like to relate my appreciation for the accomplishments that have come about through the organizations that support REA. As we carry it on, I think the major part of this picture is the borrowers themselves, who do the work out in the field and by the consumers and subscribers themselves.

GOALS OF REA

As we begin the third year of this administration, I feel there is a need for us to sit down and, perhaps, do a little thinking, make some determinations about what our goals and responsibilities are as we look at REA's activities. I see three goals as most pertinent to the responsibilities that belong to REA. Number one would be best stated by saying that REA will use the resources entrusted to it to meet the essential needs, both financial and otherwise, of the organizations whose purpose it is to provide electric power or telephone service to rural America.

The second goal I see as important is the stewardship of the REA programs, so as to do our full part in controlling the growth of our Nation's Federal debt.

And third, to prevent the continued deterioration and the possible loss of the REA revolving fund. I think this is an emergency situation that we must deal with at the present time. I recognize that there is considerable study being given to this and that it is being dealt with insofar as consideration of what needs to be done.

1984 BUDGET REQUEST

I will now comment very briefly on the budget items themselves. We feel they are adequate.

For the insured electric loan program, we are recommending $500 million for 1984 compared to $850 million this year. This is not to indicate that we are assuming that there is going to be a lesser need in the industry. We are merely saying that we believe that the industry is able to go to a greater use of supplemental funds and thereby use a lesser amount of REA funds, yet still meet the funding needs that exist.

This does indicate a feeling on our part that there needs to be very close scrutiny given to the criteria and ratios concerning the mix of REA and non-REA moneys. In the electric loan guarantee program, we are recommending $3.235 billion as compared to a program of $4.6 billion this year.

This reflects a slowdown in the construction of new generation and transmission facilities across the Nation, and we think $3.235 billion in

1984 will fill the needs appropriately. For the insured telephone loan program, we request a reduction from $250 million in 1983 to a recommended level of $75 million in 1984. This is a fairly substantial adjustment, but we need to remember that rural telephone borrowers also have access to loan guarantees, as do the rural electric borrowers, and also to the Rural Telephone Bank. For the telephone loan guarantee program, we are recommending a reduction of $20 million from $145 million this year to $125 million in 1984.

For the Rural Telephone Bank, we are recommending a level of $185 million which is equivalent of this year's program. You spoke of our salary and expense moneys. That does show an increase. Part of that increase relates to the annualization of the 1982 pay increase which we must meet.

We are reflecting a modest reduction in staff years from 680 for this year to a level of 665 for 1984.

Now if I may, let me speak briefly about some of the things we have done and are doing at the present time which relate to the administration of the programs that are our responsibility.

REA REORGANIZATION

We have made a major reorganization within the Agency. It has been well accepted by both the REA staff and the people we serve. We are far enough into it now to have seen some results. They give us a strong feeling that what we have done was well advised. We have realigned staff along a geographical area concept rather than functional areas. We emphasize responsibility while increasing flexibility. We have also combined the functions and responsibilities of our people out in the field.

REA PROCEDURAL CHANGES

When we put these things all together, we think we have an agency better focused on the needs we see coming. We are recommending to our auditing staff that greater reliance be put on CPA's and that they be in a position to certify performance rather than having to look at detailed accounting records themselves. We think this again reflects our confidence in the capabilities of our borrowers to do some of the things that we have done for them in the past.

Electronic transfer of funds is being emphasized. We are working toward uniform mortgage contracts; we are working toward greater latitude on loan terms and conditions in order to make it possible for our borrowers to function in a way which better recognizes their financial maturity.

Mr. Chairman, this is a brief review of where we are, what we see as our goals for the future, and the recognition of our responsibilities. The statement that we have for the record, I think, tells the story in a more complete way and recognizes the importance of what this committee has done and continues to do for the program that we are all so interested in.

I welcome any questions which will help to leave you and members of the committee better informed about what we are doing and what our goals are.

Senator COCHRAN. I want to welcome to the hearing the Senator from North Dakota, Mr. Andrews, who has been to the White House arm wrestling over the budget resolution they are working on in the Budget Committee.

We appreciate your being here, and I recognize you now for any questions.

Senator ANDREWS. Thank you, Mr. Chairman.

It is good to be here. I have just come back from the White House. Of course, we are beginning the sessions on the budget. Why anybody would want to be on both the Appropriations and Budget Committees, I don't know. My staff asks me that regularly, too. It is good to be here.

Charlie, I understand you have a plane to catch. Mr. Shuman was good enough to stop by my office. He emphasized the fact that they are going to be markedly increasing the amount of money available that is requested in this budget for operating loans under Farmers Home.

We discussed how they were going to expedite getting those into the farmer's hand. I think he is working in the right direction on that. You haven't changed your feeling since then, have you?

Mr. SHUMAN. No, Senator.

REA-FFB AGREEMENT

Senator ANDREWS. Go catch your plane.

In the case of the Rural Electrification Administration, I have been concerned over the dispute REA and Federal Financing Bank have had over the payment of servicing fees for REA guaranteed loans.

We had a lot of fights between Mr. Stockman, Office of Management and Budget, and others in the administration.

I would like to point out that I think the increase in the financing charge, shall we say handling charge, is unnecessary. Doesn't FFB make an annual profit of between $5 million and $6 million on REA guaranteed loans, Mr. Director?

Mr. HUNTER. I do not have specific information on the dollar value, but they do have income that comes to them——

Senator ANDREWS. Let me put it in another way, and because this thing has been going on for 2, 2½ years, I want it crystal clear so the public understands that the Federal Government makes a profit on rural electric co-op loans that are handled through the Federal Financing Bank. It doesn't cost the taxpayers money; is that not true?

Mr. HUNTER. There is a payment made to the Federal Financing Bank which is above the——

Senator ANDREWS. That is right. So the Federal Government—the taxpayers of this country—in effect, makes a profit on the loans that these local generation distributing co-ops make through FFB. It is not something that is saddling the taxpayer and adding to the deficit and all of that.

ENERGY INDEPENDENCE

As a matter of fact, it might address the deficit, because the more we can encourage locally generated power, the less we have to depend on those fellows in the long white robes who call themselves the OPEC types and how they are gouging us for the price of their oil. Even though it is coming down, it still contributes to a massive imbalance of payments and has a drastic effect on your economy.

On the one hand, locally generated electricity, generated by REA co-ops borrowing through FFB's results not only in a profit to the Treasury but also frees us from dependence on OPEC countries for their energy; isn't that essentially true?

Mr. HUNTER. That is essentially true, sir.

Senator ANDREWS. I just wanted to lay that one to rest, if I could. Then I wanted to ask how much does the FFB collect from borrowers with REA guarantees with a servicing fee; do you have those figures?

Mr. HUNTER. Let me turn to my staff and see if they have a specific answer to that.

OPERATION OF FFB

Mr. NAYLOR. Senator, if I may, while Mr. Hunter is reviewing that, I think we should have the Department of Treasury insert some comments. But to the extent that there is net new borrowing, the Treasury Department is required to go into the marketplace and borrow additional funds which funds are ultimately reflected in the deficit being reported in the total national debt——

Senator ANDREWS. That is absolutely true, Mr. Naylor. If those plants were to be built and if they were to be financed other than through the FFB, they would also have to go into the marketplace to get that money, and they would have exactly the same impact on the money markets of this country.

Whether you borrow through door "A" or door "B", when you are talking about the impact on the money market of net borrowings, whether it is through FFB or another consortium of banks, it has exactly the same impact on the borrowing market in this country.

Mr. NAYLOR. Senator, that certainly is the case, but it becomes a matter of competition for the allocation of capital.

DEPENDENCE ON FOREIGN OIL

Senator ANDREWS. I know, but let me ask you this question: Is it the administration's policy to try to tell these rural electric co-ops that they shouldn't build these new plants so we cannot get energy independent? I thought this administration was trying to get energy independent, to break away from our dependence on the capriciousness of the OPEC countries.

The only reason for any logic behind what you just said is the fact that the administration doesn't want these plants to be built, and the administration wants to keep up the dependence on OPEC countries. I cannot believe that is true.

Mr. NAYLOR. Senator, that is not true. I think, as you are well aware, that is not the case.

Senator ANDREWS. Then, why not give access——

Mr. NAYLOR. In fact, the administration increasingly is saying that the Federal Government should not be a determining factor for credit allocation.

Senator ANDREWS. That is true, but the only reason for any logic in what you just said is that if you can discourage these generating co-ops from borrowing and building, you will then have less impact on the money markets.

I don't want to discourage them. I want to get as much energy independence in this country as we can. I sit on another subcommittee with my colleague from Mississippi—the Defense Subcommittee—and waltzing before us come all these four-star generals and great assistant secretaries of defense with their great logic of wanting $24 billion for a rapid deployment force.

Remember that, Thad? We asked them:

> Why do you want $24 billion for a rapid deployment force?
>
> Well, Senator, we need it to protect our interests in the Middle East; that is an area we are not quite competent in having a theater of operations response team for.

I said:

> Well, why do we have to build up this great infrastructure to protect our interest in the Middle East?

Hell, they say we need it to protect our lines to those oil deposits in the Middle East. Here the administration comes to us in the other subcommittee saying we want to spend $24 billion a year to militarily try to keep our hands on somebody else's oil, and now you come in and say we should discourage our co-ops from gaining energy independence here in the country. That is looking-glass logic. That is Alice-in-Wonderland stuff. It just doesn't make sense.

Mr. NAYLOR. Senator, you are talking about the energy source of those generating plants; it could be oil, coal——

Senator ANDREWS. How many rural electric generating plants are on the drawing boards to be fueled with oil, Mr. Naylor?

Mr. NAYLOR. Senator, that is right——

Senator ANDREWS. Is one?

Mr. NAYLOR. It could go the other way, clearly, but that doesn't prevent them from doing so.

Senator ANDREWS. You said maybe these plants are going to burn oil?

Mr. NAYLOR. Of the plants being built, we do expect——

Senator ANDREWS. I bet you a darn good steak dinner that no rural electric co-op is proposing the building of a plant to be fueled with oil.

Mr. NAYLOR. I would certainly hope not at the moment, Senator. On the other side of the coin, I think all of the co-ops are having to examine much more closely the demands and the cost of developing new generating facilities, and we, in turn, are looking at them very closely.

USE OF THE FFB

The only point which I wish to review with you is that there is some disagreement from the administration's perspective as to the cost and the use of the Federal Financing Bank. Its use and availability are not in question, and that decision has been made by the Congress and within the administration that it will be available for these types of loans.

But there certainly is a disagreement, I think, in the perspective of how you evaluate costs related to the Federal Financing Bank, the impact it has on the overall Federal operating expenditures, the fact that the Government does not currently match securities within the Federal Financing Bank and that it does not itself sell securities in the marketplace. They go to the general fund of the Treasury. So there are a good number of technical considerations on the total costs and those must be factored in.

Senator ANDREWS. Let's face it, the use of the FFB is a way of encouraging American electric co-ops to build more plants if they can justify it by the interest rates charged. It might make the difference between building one or not building one, whether they go FFB or on the regular market; is that not true?

Mr. NAYLOR. Senator, I am not sure——

Senator ANDREWS. Well, we are told by the generating plants that if they didn't have access to the FFB, some plants might not be built. Since we make a profit as taxpayers on the financing of these plants through the FFB and since the impact on the borrowing in this country will be exactly the same, I would hope you would take a look at the needs to move toward energy independence and realize this is one of the better places that we can do just that at no cost to the taxpayer. Except for what you identify as borrowing, that if you discourage it from taking place at all, it might have less impact on the overall borrowing in this economy, but then we would have a much more adverse impact from the imbalance of payments. You will not win on that one.

Frank, you and I have gone round and round on this and other things over a couple of decades. I know you are not going to convince me, and I am beginning to suspect that I am never going to convince you.

Harold, what dollar figure can you get from the amount they collected on the servicing fee?

Mr. HUNTER. This amounts to about $6 million annually on a $5 billion program.

Senator ANDREWS. How much of the servicing fee is forwarded to REA? Take a guess and you can correct it later. Somebody behind you has an answer, I think.

Mr. HUNTER. $170,000 is the amount forwarded to REA this year for the servicing that REA does.

Senator ANDREWS. How much do you expend in servicing these guaranteed loans?

Mr. HUNTER. We estimate this to be about the amount that we expend.

Senator ANDREWS. So you, in a sense, make a profit?

Mr. HUNTER. We break even.

Senator ANDREWS. Do you charge the same amount for any loan, or do you charge it based on the amount of the loan?

Mr. HUNTER. The amount charged is based on the amount of the loan. The proposal, if you are talking about the new agreement which now applies, is one-eighth of 1 percent plus one one-thousandth of 1 percent.

Senator ANDREWS. In other words, you will charge three times as much for a $30 million loan as you will for a $10 million loan?

Mr. HUNTER. Yes.

Senator ANDREWS. Does it cost three times as much to process?

Mr. HUNTER. Probably not.

Senator ANDREWS. Then what is the logic in that?

Mr. HUNTER. Again, it was arrived at as being one approach——

Senator ANDREWS. Is there any possibility of arriving at a 5- or 10-year agreement between REA and FFB on the matter of servicing fees? Could you provide greater stability for REA borrowers and provide the Government with a better idea of future revenues from the servicing fee and a better idea of future expenses to be incurred in servicing REA guaranteed loans? Are you looking at that?

Mr. HUNTER. We are looking at further adjustment of the servicing fee and further consideration of other items that might enter into the contract that exists between FFB and REA.

STORM DAMAGE LOANS

Senator ANDREWS. I understand my colleague from North Dakota already had the answer to the question of North and South Dakota co-ops in the storm damage. You said you didn't have the answer you would be pleased with——

Mr. HUNTER. He was very diligent about bringing up the subject.

Senator ANDREWS. We told you we would.

Mr. HUNTER. We hoped we would have the answer available for you today. We don't, but we are certain that it will be an answer that you will find equitable.

Senator ANDREWS. When will we get this answer?

Mr. HUNTER. We think we are right close to the answer.

Senator ANDREWS. Thank you, Mr. Chairman.

CROP SITUATION IN SOUTH DAKOTA

One final thing, I would like to thank Merritt Sprague for the help he has given us in trying to resolve a difficult crop situation in South Dakota with our bean growers. I understand sometimes the answer cannot be favorable. He expended every effort to get face to face. They appreciate it, and I appreciate it.

Thank you.

Senator COCHRAN. Thank you, Senator.

EFFECTS OF REA BUDGET PROPOSALS ON ULTIMATE CONSUMERS

I appreciate your being here and the contribution you make to the hearing and to the deliberations of this committee. It is probably going to be pretty hard to sell the committee on agreeing to the substantial cuts that are being requested in the direct insured loan program—41-percent reduction in electric loans and 70 percent in the telephone loan program.

Isn't it true that the net effect of all that, if it is approved by the committee, will be either to reduce the availability of affordable energy or telephone service in rural America or substantially increase the cost of it?

Mr. HUNTER. The studies that we have made show an insignificant relationship between either increasing the interest rate or requiring that borrowers obtain more financing from non-REA sources and the total cost of power or telephone service to the user.

As we go back and look at what has happened over the years, it has not been a question of the interest charged, as much as it has been the availability of the capital itself, being the most important factor to be considered.

If we had any feeling that the change in the mix of REA with non-REA moneys was going to seriously impair the availability of that credit, we would not recommend it. The availability is there; we feel it is there in the private sector.

What we are proposing is not a reduction in the total funds themselves, but rather the involvement of REA money and the mix that will be made.

1983 LOAN GUARANTEE LEVELS

Senator COCHRAN. What level of REA loan guarantees do you anticipate being made this year?

Mr. HUNTER. We think that we will just about meet the level that is authorized to us. That is our estimate at the present time. It is difficult, though, for us to know for sure, because the guaranteed program involves such large individual amounts. So it might be that an application for a big project will be completed just before or just after the end of the fiscal year, and that would have a considerable impact upon what the total annual program would be.

Senator COCHRAN. Would your answer apply to the telephone guarantee loan program as well as the electric guarantee loan program?

Mr. HUNTER. In the telephone loan guarantee program, there would again be not so much. They don't get into such large, individual projects as the electric program.

APPLICATIONS ON HAND

Senator COCHRAN. Do you have any figures that would indicate the total number of unapproved loan applications in the telephone program and electric program, so we could get an idea of the demand and need for these programs?

Mr. HUNTER. I have staff who can provide information on that. We can provide precise figures for the record.

Senator COCHRAN. If you could give us that for the record, it would be helpful to the committee to assess what the need is and what the size of the unapproved loan applications are out there across the country.

Mr. HUNTER. We will be glad to do that.

[The information follows:]

APPLICATIONS ON HAND AS OF APRIL 4, 1983

Electric program:	
Insured	$522,276,000
Guaranteed	[1] 671,613,000
Telephone program	985,016,000

[1] Additional projects are being reviewed in REA.

REA REVOLVING FUND

Senator COCHRAN. We have a problem which, as the committee understands it, is with the REA revolving fund. There has been a proposal made by the rural electric systems to make changes in the interest rates on new loans and to try and continue that revolving fund and maintaining its integrity.

Will there be proposals made to this committee for any changes in language, or will there be a proposal made to the legislative committee for a change in connection with the revolving fund this year?

Mr. HUNTER. The administration does not have a completed proposal at this time. I think it is important to note that we all agree there is a necessity to deal with the problem of the revolving fund.

It is in desperate straits. It needs to be dealt with. I feel strongly as Administrator that it needs to be dealt with in a combination of approaches, looking at a possible change in the ratio and a possible change in the criteria. All of these items need to be looked at, because the fund is in dire straits.

[The following questions were not asked at the hearing but were submitted to the Rural Electrification Administration for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

LEGISLATIVE PROPOSALS

Question: The 1984 budget contains language proposals to eliminate the range for insured electric and telephone loans. The language for loan guarantee commitments proposes to eliminate the range and to establish upper limits. Do these legislative proposals require consideration of the authorizing committee or are these appropriation language changes?

Answer: These are appropriation language changes and do not require action by the authorizing committees.

Question: Were these changes instigated within the Department or did they come from the Office of Management and Budget?

Answer: The proposal to remove the loan authorization ranges was initiated within REA and endorsed by the Department and OMB.

Question: Please explain why these changes are requested and what impact they will have on the REA programs.

Answer: We are proposing elimination of the ranges because we feel the financial requirements of REA electric and telephone borrowers can adequately be met using the levels proposed in the President's Budget if effectively coupled with certain administrative changes. The elimination of the ranges themselves will not have a significant impact on borrowers, providing changes to require borrowers to obtain a larger proportion of their financing needs from non-REA sources are also implemented in 1984.

REA INSURED LOANS

Question: You are proposing to reduce rural electric insured loans by $350 million or by 41 percent in fiscal year 1984 and to reduce rural telephone insured loans by $175 million or by 70 percent. What is your justification for these substantial reductions?

Answer: The reason for reducing REA insured loans is two-fold. First, it is a part of the Administration's objective to control Federal credit and reduce the private sector's financial dependence on the Federal government. Secondly, it is a step in securing the financial integrity of the revolving fund. Borrowers already have access to financing sources other than REA, and with changes in REA's supplemental lending requirements, borrowers could expand their use of these sources. Any resultant increase in rates to rural electric and telephone consumers would be minimal.

Question: Under present economic conditions, do you think your proposals are really appropriate?

Answer: Yes we do. The economy is still in the process of recovery; however, there have already been some victories. The inflation rate is down dramatically. Interest rates likewise have fallen. There are still some adjustments needed to generate the sustained and stable economic growth required to create meaningful and permanent employment and we feel they will occur. The economic illness this country found itself in on January 20, 1981, when this Administration took office, did not occur overnight. Likewise, it will not be cured overnight, but there are signs of recovery.

REA electric and telephone borrowers have already benefitted from this Administration's economic policies and actions. Borrowers from the Rural Telephone Bank have seen the interest rate the Bank charges fall three times since the beginning of the fiscal year, from 11.5 percent to 10.0 percent. Likewise, electric borrowers who get insured loans from the REA Revolving Fund get a portion of their needs from non-REA lenders, mainly from their own organization, CFC. Typically, 30 percent of their capital needs come from supplemental sources. A year ago this 70-30 financing ratio would have resulted in an effective interest cost to rural electric systems of 7.8 percent. Today, the same loan ratio would result in an effective interest cost of 7.1 percent.

Similarly, electric and telephone systems that receive loans from the Federal Financing Bank under an REA loan guarantee would pay around 300 basis points less today for cash advances on those loans than they would have a year ago.

So, we do feel that present economic conditions do allow for some changes to the REA program.

ELECTRIC USAGE

Question: I am told that for the first time rural electricity used by industrial and large commercial users has declined. What has caused this decline? Does it have anything to do with the depressed rural economy?

Answer: Final 1982 information is not yet fully available. It does appear, however, that total non-residential sales may show a small decline compared to an overall median increase of approximately 3.5 percent. It appears that, while the majority of borrowers at least maintained their industrial sales, some systems with extremely large industrial sales, such as aluminum production and mining, did experience declines.

UNUSED LOAN AUTHORITY

Question: Did you carry over any unobligated loan authorizations from fiscal year 1982 into 1983? What was the amount?

Answer: Yes, we did. In the telephone program we carried $1,023,000 in insured loan authority into fiscal year 1983. This amount is expected to be used this fiscal year.

Question: Do you anticipate unobligated loan authorizations for fiscal year 1983?

Answer: Not at the present time. If it becomes apparent later in the year that not all the authorizations will be used, we will notify you as soon as possible.

SUPPLEMENTAL FUNDING

Question: You indicate in your statement and in the Explanatory Notes that REA borrowers can increase the portion of their total financing from other funding mechanisms. Would you please explain what some of these other funding mechanisms are?

Answer: The most logical supplemental financing source for the electric program is the CFC, which is owned by the borrowers themselves. However, a number of financial institutions, such as the Chase Manhattan Bank, Citibank, the Bank of America, First Boston Corporation, and the Banks for Cooperatives have indicated an interest in making funds available to rural electric and telephone borrowers.

Question: Has there been any significant indication that the private sector will "pick up the slack?" Hadn't the government better keep the slack filled until the others take up the load?

Answer: As mentioned, we have had some very encouraging signals from private financing sources. It is not our intention to abandon the rural electric and telephone systems. REA insured funds will still remain available. We are trying, however, to carry out Congressional policy in having borrowers satisfy more of their capital needs from non-government sources.

Question: You also state that other proposals which would require borrowers to reduce their dependence on REA for financial assistance are still under discussion and consideration. What are some of these other proposals?

Answer: First, we are looking into changing the supplemental lending ratios and requiring most borrowers to obtain a larger proportion of their total financing needs from sources other than REA. The current 70-30 maximum has been in effect since 1972; eleven years. We are also looking at targeting the insured loan funds to those borrowers with poor financial positions or rather difficult operating situations, such as those in the very sparsely settled areas.

In the matter of lien accommodations, we have been working with supplemental lenders in recognition that some modifications may be needed in REA's current accommodation of our first lien position.

REA GUARANTEED LOANS

Question: What level of REA loan guarantees do you anticipate making this year?

Answer: For 1983, we are anticipating meeting the levels authorized, that is, $4.6 billion in electric loan guarantees and $145 million in telephone loan guarantees. If it appears that we will not be able to reach these levels, we will let you know as soon as it is apparent.

Question: In view of the adequacy in loan guarantee authority, what is the justification in REA reducing guarantees by the amount of anticipated pollution control financing?

Answer: Experience over the past few years indicates that borrowers generally use tax-exempt financing for costs associated with pollution control equipment and related facilities. REA provides lien accommodations so borrowers can obtain this type of financing under favorable terms and conditions. Using the various available short-term, tax-exempt finance vehicles, while waiting for lower long-term, tax-exempt rates, borrowers have been able to finance the equipment at much lower cost than using REA guarantees. It has been demonstrated that this type of financing is available without the benefit of an REA guarantee.

PROGRAM ENHANCEMENTS

Question: Substantial reductions in REA insured and guaranteed loans have been proposed the past couple of years (amounting to $1.8 billion in fiscal year 1984 alone). Please explain what steps have been taken or are proposed to enhance the REA program.

Answer: We have taken a number of steps which will enhance delivery of the REA program. On November 15, 1982, a major reorganization was implemented. One of the immediate effects in the electric program was to reestablish the one point of contact for electric borrowers at the Washington headquarters level. Other effects in both the electric and telephone programs will be the elimination of excessive layers of review for loan applications, thereby streamlining the loan approval process. Another step taken to recognize the growth and maturity of the REA borrowers was to consolidate the responsibilities of the REA field staff within each of the programs. This will allow the REA field staff greater freedom to direct their efforts at those borrowers needing assistance and will provide the majority of borrowers a greater degree of freedom from REA involvement in their day-to-day management.

In the telephone program we are expanding the certification program. As a result, borrowers will have to submit less documentation in support of their requests for funds. We are also working with NASA in exploring the potential for satellite communications in rural areas.

We are continuing to explore the Administrator's authority to accommodate the Government's first lien, in an effort to increase our responsiveness to the borrowers' needs to seek out additional funding in the private sector.

INTEREST RATES

Question: Rural electric systems are proposing to correct the current imbalance in the REA Revolving Fund by raising the interest rate on new loans. Do you support this recommendation?

Answer: This is one way to help correct the imbalance. There are other ways also to help the fund, including a combination of increasing the interest rate and reducing the amount of money that comes from the fund. Since there has not been a formal proposal made, we are not taking a position until more specifics are submitted and we have a chance to examine their long-term effects.

Question: Support of legislation to increase REA interest rates is inconsistent with the proposal to reduce loan levels. Why are you proposing to both slash funding and increase interest rates?

Answer: The two are not really inconsistent with each other, particularly when you look at the availability of outside financing, and the great disparity between the five percent interest rate charged by the Revolving Fund and the current interest cost to the Treasury for borrowing. We feel that the two options actually complement each other and will go to great lengths in providing for the continued strength of the Revolving Fund, as well as in reducing borrowers' demands on the Federal government for financing. These are both of great concern to us and the primary reasons we are examining these options.

ADMINISTRATIVE COSTS

Question: Since the Federal Financing Bank's fee of .125 percent exceeds their administrative costs, why did REA insist on an additional fee being added to REA guarantees:

Answer: REA did not insist on the additional fee being added to REA guarantees. This provision was added to the new REA-FFB Loan Commitment Agreement because REA is not authorized to use administrative funds for the servicing of guaranteed loans. REA is also prohibited from charging a fee for guarantees. Until 1983, the FFB paid the servicing fee from the one-eighth of one percent it charged borrowers under an REA guarantee. The additional charge was required by the FFB if the agreement was to be extended.

RURAL TELEPHONE BANK

Question: You are requesting a legislative change which would eliminate the purchase of Class A Stock in fiscal year 1984. Please explain why you are requesting this change.

Answer: The purchase of the Class A Bank stock is not essential for the Bank's efficient opperations. The Bank already has the authority to borrow from the Treasury up to 20 times its paid-in capital and retained earnings at the cost of money to the Treasury. In addition, Bank borrowers are required to purchase Class B Bank stock equivalent to five percent of each loan obtained from the Bank. These funding sources provide for an automatic mechanism to cover the Bank's need for funds. We feel that requiring the Bank to borrow from the Treasury at the cost of money, rather than purchase Class A stock by the Government, will better accomplish the Administration's goal of reducing the government's direct intrusion into the private sector's financial markets.

Question: You are also requesting a change which would eliminate the minimum loan program and establish the maximum loan program at $185,000,000. Please justify this change and explain the impact this would have on the Rural Telephone Bank.

Answer: The ranges are being proposed for elimination because the financial requirements of Rural Telephone Bank borrowers can be met using the levels proposed in the President's budget. We are confident that the elimination of the ranges will not have any impact on borrowers.

TELEPHONE PROGRAM

Question: For telephone loans, you are proposing $75 million for insured loans, compared with the minimum of $250 million provided for fiscal year 1983. You are proposing guarantees in the amount of $125 million as compared to $145 million in fiscal year 1983. What is the total amount of unapproved loan applications on hand as of January 31, 1983?

Answer: On that date there were $953,177,139 in telephone applications on hand.

Question: What is the status of these applications with respect to which ones have been processed completely and which are still in process?

Answer: These applications were made up of $597 million in completed applications, and approximately $356 million in applications in various stages of completion.

Question: What percent of the people in rural areas of this country have no telephone service?

Answer: The most recent information available indicates that approximately 9.4 percent of the households in rural America do not have telephone service.

Question: What will be the impact on those Americans if your budget proposals go into effect?

Answer: Our proposals will not have any impact on these Americans. The President's budget will provide the levels of financing necessary to continue servicing existing facilities, as well as provide for any planned extension of service to areas currently without telephone facilities on an area coverage basis.

Question: Have you done any studies on the impact your proposals would have on telephone rates in rural areas? What were the results of those studies?

Answer: No, we have not made any comprehensive study to determine the impact on telephone rates in rural areas as a result of these proposals. However, since our funding proposals, using insured loans, loan guarantees and Rural Telephone Bank loans, should provide for our borrowers total needs in fiscal year 1984, we do not feel subscribers rates will be affected at all.

ELECTRIC LOAN PROGRAM

Question: For the electric loan program, what is the total unapproved loan applications on hand as of January 31, 1983?

Answer: As of January 31, 1983, we had $1,182 million in loan applications on hand.

Question: Approximately how will these applications break down between insured and guaranteed loans?

Answer: Of this amount we estimate that approximately $528 million will be made as insured loans, and $654 million as loan guarantee commitments. In addition, we have approximately $191 million in applications which will probably be made by supplemental lenders.

CLASSIFICATION BY OBJECT

Question: You have requested increases in the following object classifications: travel (+$139,000), communications, utilities, etc. (+$71,000), printing and reproduction (+$21,000), other services (+$255,000), equipment (+$35,000). What is your justification for the increases in these classifications?

Answer: The increases shown in these object classes are necessary to cover increased operating costs associated with carrying out the loan programs of the Rural Electrification Administration in an effective and efficient manner. Included in the request are additional travel funds which would allow the Washington and field staff to operate at full efficiency. In addition, funds are also requested in other services for the restoration of a small portion of our special contracting program. All other increases can be attributed to increased departmental assessments, increased ADP equipment maintenance costs, expansion of our Borrowers Information System, and inflation. Our total fund request represents the actual agency needs to effectively administer the REA program.

NEW REA BORROWERS

Question: In the electrification program, how many new borrowers did you have in fiscal year 1982; how many in fiscal year 1983, and proposed for fiscal year 1984?

Answer: In the electric program we added or expect to add the following new borrowers:

Fiscal Year	New Borrowers
1982	4
1983	1
1984	4

Question: How many new borrowers did you have in the telephone program for fiscal year 1982, 1983, and 1984?

Answer: In the telephone program we added or expect to add the following new borrowers:

Fiscal Year	New Borrowers
1982	23
1983	9
1984	7

Question: Please explain the drastic difference in these numbers?

Answer: There are still many rural telephone companies that have not borrowed from REA; however, we now find that as they are faced with the high cost of upgrading their telephone plant they are turning more frequently to REA and Rural Telephone Bank financing for these purposes.

QUESTIONS SUBMITTED BY SENATOR MATTINGLY

Question: Is my understanding correct that today REA actually is borrowing money to pay the interest on earlier borrowings? If so, what effect does this have on the Revolving Fund system and does it pose any problems for the program in the near future?

Answer: On March 31, 1983, the Revolving Fund sold a Certificate of Beneficial Ownership to the Federal Financing Bank for $188 million. Because we use both principal and interest receipts on prior loans from the Fund to make advances on new loans, we had to use $178 million of that CBO to pay interest expense. Total interest receipts of the Fund still exceed total interest expense, however, and will continue to do so for the next three years or so.

Question: Last year the Appropriations Bill included language which precluded the Administrator of REA from adjusting the ratio of five percent loan monies which would be matched with commercial borrowings. Can you explain to the subcommittee the effect this restriction has had during the present year, and can you project the effects for fiscal year 1984 and beyond?

Answer: Continuing to use the criteria and ratios in effect as of last July has prohibited us from targeting available resources to those borrowers with the greatest need. Systems with high equity, high revenues and greater density still receive approximately the same financial support as less prosperous systems. Likewise, the longer we delay making some changes in this area, the more difficult it becomes for us to preserve and perpetuate the Revolving Fund.

Question: There has been some suggestion that the five percent rate be increased to seven and one-half percent in the future. What is your opinion regarding this suggestion, and would it be a more effective way of dealing with REA's problems than, say, allowing you to alter the ratio of REA and commercial funding?

Answer: REA's fiscal year 1984 budget request assumes a greater level of supplemental financing through adjustments in the ratio and criteria. This is one reasonable approach to begin solving the problem with the Revolving Fund. We believe that with an increase in supplemental financing made possible by adjustments in the ratio and criteria, we will make available the same total dollars to our distribution borrowers with little or no impact on their operating cost or local consumer rates. While increasing interest rates to the borrowers would also aid in improving the operations of the fund, we are awaiting the final recommendation on legislation concerning the options for making the revolving fund solvent and would like to review those before we take a position.

OFFICE OF RURAL DEVELOPMENT POLICY

STATEMENT OF WILLARD (BILL) PHILLIPS, JR., DIRECTOR

ACCOMPANIED BY:

JAMES C. ANDERSON, DIRECTOR, BUDGET DIVISION, FARMERS HOME ADMINISTRATION

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

BUDGET REQUEST

Senator COCHRAN. This morning, we also appreciate having as a part of the panel, the Office of Rural Development Policy.

Mr. Phillips, we haven't ignored you. We know you are there, and we appreciate your patience. We have your statement justifying the request of $2.4 million for funding next year's activities. This is an increase of $358,000 over the amount provided in fiscal year 1983.

Your office, as we understand it, is responsible for developing and implementing the national rural development strategy. It also assists with the coordination of rural development programs at the State and local level.

If it is all right with you, we will now make your statement a part of the record.

[The statement follows:]

STATEMENT OF WILLARD (BILL) PHILLIPS, JR.

Mr. Chairman and Members of the Committee, I appreciate this opportunity to appear before you to discuss the Office of Rural Development Policy's Fiscal Year 1984 appropriations request.

A year ago when I appeared before you, the Office of Rural Development Policy was a newly created USDA office. It was established to assist the Secretary of Agriculture in fulfilling the rural development leadership responsibilities assigned to the Department under Section 607 of the Rural Development Policy Act of 1980. Secretary Block directed that we give first priority to preparation of the National Rural Development Strategy called for in the Act. He further directed that it be a practical strategy for responding to the diverse problems and opportunities in rural America. That is what we have done and on February 4, 1983, the National Rural Development Strategy was submitted to Congress.

In preparing the strategy, the special needs of rural America--its people, its economic potential, its social and physical requirements, and its governmental systems--were taken into account as mandated by the Congress. As important, a serious and sincere effort has been made to employ the practical experience and technical expertise of thousands of rural Americans in formulating this policy. Secretary Block also appointed a 25-member National Advisory Council on Rural Development to help coordinate the strategy process. The Council deserves principal credit for refining the policy recommendations contained in the strategy.

The response to this widespread solicitation of public views has been very encouraging. The most often cited--and most urgent--challenges to rural people are: improved facilities and services, better assistance to rural governments, better housing, and more jobs in the private sector. These are dealt with in detail in the strategy.

Extensive citizen involvement in developing this policy made it better, but not easier to do. In deciding the most appropriate way to meet rural needs, we paid close attention to the practical recommendations of rural people themselves. It also involved reviewing these needs and refining the recommendations in the context of previous actions and prevailing philosophies of this Administration.

A substantial consensus emerged between the views of rural Americans and the objectives of the Administration. The primary philosophical objective of this Administration is to let the American people govern themselves as they will. This strategy is a manifestation of that philosophy. The clearest message we have received from rural Americans is this: People at the community level, supported but not dominated by the State and Federal Governments, can chart their own best path to progress.

The rural development strategy represents an important step towards realizing that principle. It encourages local leadership and gives local and State governments the authority and resources needed to meet that leadership challenge.

A second principle embraced by both rural America and the Administration is that economic growth must occur in the private sector, if it is to be sustained. Economic growth in the private sector has historically proven to be a far more powerful tool of social advancement and community improvement than even the most ambitious government program.

We believe the strategy initiatives are compatible with the concerns and views of rural Americans and the principles of this Administration. It proposes that certain rural community development programs be consolidated into a New Federalism Federal-State Block Grant program. To ensure that these programs continue to serve those they were designed to benefit, State governments will be required to pass certain funds through to small cities and rural areas. In addition, rural communities will be better able to compete with urban communities for the remaining Federal-State Block Grant funds as a result of the technical assistance and data collection provisions of the strategy. When implemented, this will provide local governments the resources and authority to define and address their unique community facilities, technical assistance, and other needs.

Another initiative focuses on generating private sector jobs through increased foreign trade of rural products. This will be done by encouraging and assisting in the formation of export trading companies established to develop foreign markets for rural products. We will also increase our efforts to more systematically disseminate government-sponsored foreign market research and other trade assistance to public and private rural trade interests. With passage of the Enterprise Zone legislation, including the rural zones as proposed in the strategy, job producers will be encouraged to locate in economically disadvantaged rural areas.

As a part of New Federalism, the strategy proposes a Rural Housing Block Grant program. The strategy also recommends the Federal Government take several steps to help rural areas gain better access to credit. To provide local governments the technical and management assistance they need, the strategy encourages the formation of State-level Technical Rural Assistance Information Networks which would bring together rural development experts and rural leaders. To supplement this effort, a Rural Resources Guide will be published and provided to rural leaders. It will catalog the nature and scope of both private and public rural assistance and identify effective means of access to these resources. To help insure that statistical gaps do not impede rural America's access to Federal resources, improvements will be made in the quality and specificity of information collected and reported on rural areas. While the transition is made from categorical aid to block grants for rural development, regulatory and reporting requirements which adversely affect rural areas will be reduced or removed.

Rural people can and should govern themselves. But in so doing, they must have access to the basic resources, aid, and tools available to the rest of the nation. The strategy is directed towards making sure rural communities have these necessary resources.

That, in brief, is the focus of the National Rural Development Strategy, the central but by no means the only activity of the Office of Rural Development Policy in the last year. Throughout the year we have also monitored developments in rural America, reviewed research on relevant rural issues, and encouraged communication and cooperation among government agencies with policies and programs affecting rural America. It was a very full slate of activities.

But next year's will be even fuller. I am pleased those who wrote the Policy Act of 1980 realized the importance of implementing the strategy and reflected it in the legislation. It is upon this basis that we must begin the additional and equally demanding job of implementation. This must be a cooperative effort involving the Congress, the Administration, and State and local governments. We look forward to playing a major role in this effort by providing national leadership and coordination, by encouraging cooperative efforts among all levels of government, and by assisting local governments as they assert their new leadership role.

We will be simultaneously updating and implementing the strategy. This will give us an opportunity to re-examine and modify the strategy in light of the response received from rural people about the strategy, new research and program developments, and lessons learned in the implementation process. Many issues remain as a challenging agenda for action in the continuing process of assessing and responding to rural problems and needs.

I believe that implementation of the strategy and the preparation of an update are important and necessary activities if we are to respond effectively to rural America's needs in a manner that rural people and communities deserve.

This will call for an increased effort by the Office of Rural Development Policy. You will note that our Fiscal Year 1984 appropriations request is $261,000 above the estimated Fiscal Year 1983 level, adjusted to cover increases in operating and pay costs incurred in FY 1983. The major portion of this increase will be used to carry out implementation of the strategy.

A major part of the Office of Rural Development Policy's implementation effort will be to help local governments assume their new leadership role. This will include supporting the establishment of the State-level Technical Assistance Information Networks and preparation of the Rural Resources Guide.

This appropriation request is made to enable us to respond effectively and sensitively to rural needs; to provide Federal leadership in rural development and to formulate, implement, and annually update a National Rural Development Strategy.

We know, as indicated in the 1980 Policy Act, that Congress is concerned with the need to maximize the effectiveness of the Federal programs for rural areas and to increase the coordination among local, State, and Federal Governments in order to achieve the shared goal of improving the well being of the people of rural America. I believe that in implementing the National Development Strategy, we have a strong foundation on which to build more effective and responsive national policies and programs to serve rural America.

Mr. Chairman, I appreciate this opportunity to appear before you. I would be happy to answer any questions Members of the Committee may have. Thank you.

RURAL DEVELOPMENT PROGRAMS

Senator COCHRAN. Let me ask you whether or not the increase in funding for your office's activity is inconsistent with the other part of the budget request relating to B&I loans and some of the other rural development programs?

Wouldn't it support the goals of economic development in rural America if we were to increase some of those loan guarantee programs, instead of just providing additional funds for your office, where you make available the technical assistance and coordination of other programs?

You are not going to have anything to coordinate if we keep reducing the number and the effectiveness of the loan guarantee programs.

Mr. PHILLIPS. I don't believe it is inconsistent, because our mission is different from and complementary to the delivery of programs.

What I think we have to do in the preparation of a rural policy or strategy is to find the best vehicles to deliver the resources that the Federal Government is able to make available to State and local governments.

Senator COCHRAN. When the report from the National Advisory Council on Rural Development was filed, it provoked a good deal of controversy. It proposed a strategy for economic development in rural America.

Was a part of that strategy to eliminate programs like the business and industrial loan program and rural housing programs of the Farmers Home Administration?

Mr. PHILLIPS. The strategy we presented did not list the elimination of programs such as B&I as one of its goals. Our goal in the strategy was to respond to the input we received from rural Americans. They do not want to be dominated by the Federal Government, but rather want it to assist them in their economic development efforts. We are trying to provide a mechanism, through the Federalism concept, to do that.

Senator COCHRAN. Has there been any assessment of the need for housing or upgrading the quality of housing that is available to low-income people in rural America? Was that a part of the study?

Mr. PHILLIPS. The National Advisory Council discussed rural housing in a general way during their deliberations this past year. The technicalities of rural housing block grants were worked on by the Farmers Home Administration.

Senator COCHRAN. Inasmuch as the strategy for rural development has now been completed, with an outline proposed for activities for the 1980's, recommending the transfer of programs to State and local governments and a reduction in the levels of loans and grants that would be made under existing programs, why is it necessary to increase the amount of money that goes to your office? To me, it would seem that you would favor less coordination and less activity, rather than more.

POLICY ACT

Mr. PHILLIPS. Senator, our request for an increase has to do with the fact that the Policy Act gives the Secretary of Agriculture and our office the responsibility for implementation of that strategy.

In so doing, we will be implementing, for example, two concepts that were addressed there: The rural resources guide and support for the States as they establish or expand their technical assistance information network.

In addition, we have been endeavoring to carry out the mandate in the Policy Act of 1980 to assist the local governments with their management capabilities. We have been doing that in cooperation with other agencies within the Department of Agriculture and by working with the Rural Governments Coalition, since they have similar objectives.

Also, the 1980 Act requires that we update this policy document. I know that we will use the experience of this year, when the first one was prepared, as well as the response and reaction we have received from it, to do an even better job of soliciting input and preparing an updated policy that will be more helpful to those who have rural development responsibilities at the local level.

Finally, we will be involved in an innovative approach for looking at job creation in rural areas, as the Congress asked us to do in the conference language of last year's appropriation.

To accomplish those activities, we feel that an increase is needed. Last year, we were new. The funds we had were transferred from the Farmers Home Administration. This is really the first year of normal operations for us.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you, very much, Mr. Phillips. We appreciate your being here and your cooperation with the subcommittee.

[The following questions were not asked at the hearing but were submitted to the Office of Rural Development Policy for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

NATIONAL RURAL DEVELOPMENT STRATEGY

Question: The "strategy for rural development" you advised us at last year's hearing you were designing is now complete and is in printed form. This report, as I understand it, has been your major undertaking for well over a year. What are the basic tenets of the strategy?

Answer: The strategy report is based on the philosophy that people at the community and State level, supported but not dominated by the Federal Government, can and should determine their own needs and priorities and be able to take actions to address them.

Question: How will the strategy be implemented?

Answer: Some of the initiatives proposed in the strategy require legislative action to insure that rural areas receive their appropriate share of Federal program funds. We have been working with the White House, Office of Management and Budget, and other agencies on this. For example, we participated in the drafting of the New Federalism proposals and the Administration already has amended its Enterprise Zones proposal to include the provision for guaranteeing that one third of the zones will be in rural areas.

During the year ahead we will be working to keep on track with these proposals.

Some of the other initiatives, such as data collection, technical assistance, and export trading companies, are being worked on by our staff in cooperation with the National Advisory Council on Rural Development, the USDA's Rural Development Working Group, and with other Federal agencies and departments.

Question: How was it devised?

Answer: The strategy is the product of an extensive public participation process in which many individuals and organizations from rural America participated. We believe, more than anything else, that gathering views and recommendations from the broad range of interests that are involved in rural development is of primary importance to the development of a practical strategy that is responsive to rural concerns.

The Secretary appointed the National Advisory Council on Rural Development, a 25-member panel of rural leaders whose contributions are the foundation of the strategy.

Members of the Council were asked to do more than present their own views. We also asked them to actively seek out and report back to us on the views and recommendations of their friends and neighbors, and the organizations with whom they have contact. They also participated in county-level meetings held in their home States and regions.

Contact also was made with public and private interest groups, Federal agencies, and with State and local governments. For example, I, and other senior departmental officials such as Under Secretary Naylor, sought out and used conference and speech opportunities to explain the process and to ask for input. We also encouraged the use of newsletters by such groups as Ruritan National to spread the word about our interest in receiving strategy input.

The results of this systematic solicitation of comments and recommendations were carefully reviewed and digested within the Executive Branch before the strategy report was transmitted to Congress. The USDA Rural Development Committee, the Secretary's Policy and Coordination Council, and the President's Cabinet Council on Food and Agriculture are among the Executive Branch policy and coordination bodies that have reviewed the recommendations and are participating in the strategy implementation process.

Question: I have seen a report that the project cost $4 million. How is this possible when your budget is $2 million? Is the estimate I saw over a two-year period?

Answer: While it is not possible to say precisely how much the strategy cost, it was far less than $2 million. The Office of Rural Development Policy was involved in preparing the rural development policy during fiscal year 1982 and the first three months of fiscal year 1983. Over that period, the office did many other things as well. Our total expenditure for all efforts during this time was $1.6 million for fiscal year 1982 and approximately $.4 million for the first quarter of fiscal year 1983.

Question: There have already been expressions of disappointment and grave concern over the report by several Senators. How do you reconcile your findings with the fact that others--this Senator included--find that rural America is still badly in need of Federal assistance, while the Administration is reducing one rural development program after another, as we've just seen in our review of the FmHA budget?

Answer: The office is required to produce a policy statement expressing, in broad terms, the actions considered necessary to keep rural America viable, to maintain the quality of life in rural America, and to insure that the productivity of rural America will continue at the level necessary to support the Nation and its people. While the strategy noted progress, it also noted the need for help in several different forms. There already is a good deal of help in the form of Federal programs totaling billions of dollars.

IMPLEMENTATION OF THE STRATEGY

Question: Now that your first strategy report is complete, will your office proceed with implementation, as well as with the next strategy report? What is your mission now? Can your current staff ceiling support your projected activities during fiscal year 1984?

Answer: The implementation of the strategy submitted to Congress earlier this year is one of our top priorities, as is the beginning of the updating process.

The update report is due by next January and involves several activities. First, we need to report on how implementation is faring.

Second, the strategy examines ways the Federal Government can become more efficient and effective in areas such as regulatory reform and transfer of program management responsibilities to the States.

Third, we will evaluate the response we are receiving from this year's strategy and reach out again to rural individuals and groups to highlight the areas we should tackle in the future.

In addition, we will continue to perform a rural development advocacy role within the Department of Agriculture and across the Federal establishment by making use of such bodies as the State Food and Agriculture Councils and their Rural Development Committees, the Secretary's Policy and Coordination Council, the USDA Rural Development Committee of the Council, the staff-level Working Group of the USDA Rural Development Council, the President's Cabinet Council on Food and Agriculture, the Food and Agriculture Council's Working Group, and the White House Intergovernmental Affairs staff. We believe the staff levels that are proposed in this budget request will be adequate to support our activities.

FISCAL YEAR 1984 BUDGET REQUEST

Question: In your Explanatory Notes, you indicate a 1984 request of $761,000 for "other services"--item 25 under "Other objects." This is a 63 percent increase over the fiscal year 1983 amount for this object. Why is the increase so large?

Answer: In our start-up year, the estimates of required budget authority for each object class were prepared without the benefit of actual historical operating data. Now that we have been doing business for over a year, we have discerned that this object class was underfunded.

"Other services" is a miscellaneous category that includes training, repair of furniture and equipment, payment of assessments by the Department's Working Capital Fund, costs for studies and analysis of policy issues, models for rural development demonstration projects, and varied other activities.

Question: Your budget request for an overall increase of $358,000 includes $261,000 "to improve local government capabilities." What does this mean?

Answer: The increase of $261,000 would be available--under object class 25--for activities to improve local government management capabilities. These include efforts to identify and remedy any transition problems associated with the transfer of decisionmaking authority from Federal to State and local governments; undertaking studies of policy options on emerging issues of interest to these officials; supporting cooperative training efforts in conjunction with the Rural Governments Coalition; and other activities.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

NATIONAL RURAL COMMUNITY FACILITIES ASSESSMENT SURVEY

Question: Bill, it was good to have the opportunity to visit with you the other day to discuss the future of our rural development policy. As you know, I was not happy with the Rural Development Strategy Report and was glad to hear you say that you also feel further work needs to be done.

In 1978 FmHA entered into a contract with the ABT Company to do a survey of community facility needs in rural America. The cost is estimated at $6 million. To what use has the community facility needs survey which FmHA commissioned the ABT Company to undertake in 1978 been put?

Answer: The final data tapes from the National Rural Community Facilities Assessment Study were turned over to the Economic Research Service in the Department of Agriculture in January of this year. Since then, the Economic Research Service has been checking and editing the data tapes. They plan to issue a summary of the data in May. That report will not be an analysis of the data; the first real analysis should be prepared in the fall.

We anticipate these data will have administrative value for Farmers Home Administration, the agency which contracted for the study. In addition, the summary information should be of interest to Congress in considering future appropriations for many programs, and, of course, we expect the information to be of value in updates to the Rural Development Strategy.

Question: Did the information that was obtained through this survey, in respect to the needs of rural areas for critical community facilities, serve as resource material for the Rural Development Strategy Report?

Answer: No. Unfortunately, it is not in a form that can be used yet.

FEDERAL CROP INSURANCE CORPORATION

STATEMENT OF MERRITT W. SPRAGUE, MANAGER

ACCOMPANIED BY:

EDWARD D. HEWS, DEPUTY MANAGER, FEDERAL CROP INSURANCE CORPORATION

THOMAS D. LYNN, COMPTROLLER, FEDERAL CROP INSURANCE CORPORATION

ROBERT SHERMAN, DEPUTY BUDGET OFFICER, DEPARTMENT OF AGRICULTURE

OPENING REMARKS

Senator COCHRAN. Mr. Sprague, we've saved the best for last.

I appreciate your patience and your being here. We have your statement discussing the request for funding activities of the Federal Crop Insurance Corporation for this next fiscal year.

I ought to give you a warning. From what I hear, if rain torrents in Mississippi as it has been for the past 2 days, you are going to get some claims from down that way.

PREVENTED PLANTING

Let me ask you this question in connection with the administration's program. Back in the days when we didn't have Federal crop insurance, or it wasn't available in all areas and when a farmer was prevented from planting, he had the opportunity to file a claim to get compensated for damages. I think the county ASCS committee would review the situation to make sure that what he was saying was true about the fact that he was prevented from planting because of wet weather or whatever. Do FCIC policies apply to feed crop cover situations, such as when a farmer has a lot of rain and his planting is delayed to the point where he either doesn't make a crop at all or his yield is down considerably from what it might have been?

Mr. SPRAGUE. Mr. Chairman, let me address your question first in regard to prevented planting.

Most crop insurance policies do not cover that kind of situation. It is not an insured peril. We do have, on a pilot basis, 10 counties in the United States with programs that we call prevented planting programs, and in those counties a loss of this nature is eligible for some indemnity. We have not moved to expand this insurance, because we have some difficulties at this time with the provisions of the contract.

It needs some revision in order to be a viable contract. But in regard to the South, in regard to your home State of Mississippi, keep in mind that the last planting dates for most crops down there extend late into the season. For instance, soybeans can be planted and are eligible for crop insurance coverage until approximately July 4, and that is a long time.

If I may, I would like to express my pleasure in appearing before this committee today and also express my personal thanks to you and other members of this committee for the support, the counsel and the assistance that you have given me during the year that I have been the Administrator of the agency.

FISCAL YEAR 1984 BUDGET REQUEST

As you noted, our budget request does consist of a total of $473.9 million. For 1984, we are asking that the majority of that, $279 million, be used for administrative and operating expenses of the Corporation.

About three-fourths of that amount will be required for reinsurance administrative expenses, master marketing commissions and loss adjustment activities. These expenses bear a direct relationship to the sales. Of our appropriation request for 1984, $170 million, which bears a direct relationship to the 1983 crop year sales, is to cover the crop year 1983 premium subsidy for which producers make themselves eligible by participating in the crop insurance program.

Of the total request, $24.9 million is for the restoration of funds which were borrowed from premium income in 1982 and not previously appropriated. We are not making any request for additional subscription to capital stock. The total amount requested is $54.6 million less than the 1983 appropriation.

CROP YEAR 1982 EXPERIENCE IN MISSISSIPPI

I would like to spend just 1 minute talking about our crop year 1982 experience.

You indicated some observations about experience in Mississippi and our experience in paying losses in Mississippi. We had significant losses in that region of the country.

I think you will be interested in noting for the record that in 1982, losses paid by the Federal Crop Insurance Corporation in Mississippi are going to approach $29 million for a loss ratio of about 1.61.

This is the result of the kind of weather that farmers in the State of Mississippi experienced in the fall of 1982 when they had difficulty harvesting their late harvest crops, primarily soybeans.

EXPANSION OF CROP INSURANCE

This administration is committed to the use of Federal Crop Insurance as the primary form of Federal disaster protection for farmers.

Since the enactment of the 1980 legislation, insurance has expanded from 1,676 counties to nearly 3,000 today. We are making offers of insurance to farmers on over 15,000 programs in the most recent year compared to only 4,629 in 1980.

The acreage insured by the Federal Crop Insurance Corporation has increased from 26.6 million in 1980 to over 44 million in the most recent year.

Insurance in force has also increased substantially from about $3 billion of potential liability in 1980 to over $6 billion in 1982.

CROP YEAR 1982 EXPERIENCE

Our current estimates of 1982 experience for both the public and private sectors show that total premium income combined equals about $397 million for 1982, but we are going to pay loss indemnities exceeding $488 million. We are expecting a combined loss ratio of about 1.23.

The Government share of those 1982 premiums and indemnities is $318 million and $424 million respectively, for a loss ratio of 1.33.

Soybean and raisin losses accounted for almost 50 percent of the total losses paid by the Corporation. Losses in five States—Alabama, Arkansas, Georgia, Louisiana, and Mississippi—accounted for 75 percent of the soybean losses. The total indemnities paid in these five States, plus California, accounted for about 50 percent of our nationwide indemnities paid.

The remaining premium income of $79 million and indemnities of $64 million were handled by reinsured companies. They had a loss ratio of approximately .81 for 1982.

CROP YEAR 1983 PLANS

Looking ahead to 1983, we see that the appropriations bill enacted in December of 1982 provided the Corporation with sufficient funds to expand the availability of crop insurance. We now offer it on 28 major crops on about 16,000 county programs in 49 States, virtually every area of the United States.

PAYMENT-IN-KIND PROGRAM

Crop insurance contracts have been made more attractive for many 1983 crops and the producers of those crops. As an incentive for those who participate in the payment-in-kind program, the Corporation will offer increased yield guarantees with no increase in premium.

ADMINISTRATIVE AND PROGRAM CHANGES

There have been several administrative and program changes that are worthy of note.

We phased out the use of individual agents. All agents and all loss adjusters have been provided training and are required to successfully complete an examination for certification.

We have a new agreement with ASCS which has been executed to reimburse that agency for county level computer support in order to study potential automation benefits.

In conjunction with Texas A&M University, the Corporation has instituted an all-risk crop insurance evaluation computer software program. This program is designed to be used by producers to help them evaluate crop insurance as a risk management tool on their own farm.

Major modifications have been made to corn, soybean, and cotton policies for 1983 and for wheat policies in 1984 which increase the insurance coverage offered producers.

Improvements have also been made in the individual yield coverage program for crop year 1983. We are expecting widespread use of this method of determining yield guarantees in the current sales season.

FISCAL YEAR 1984 BUDGET REQUEST AND JUSTIFICATION

In regard to the 1984 budget and the justification for that budget, I think it is worthy of note that we are anticipating substantial additional expansion of our capacity to sell insurance. The budget provides sufficient funds for the Corporation to more than double the 1982 level of activity.

We did not ask for capital stock, because we feel the $400 million currently appropriated will be sufficient through fiscal year 1984 to cover expected losses.

We are, however, asking for some borrowing authority. The Corporation is requesting this measure, because we believe such authority is necessary for the Corporation to provide program continuity and operate in a businesslike manner. We face some unusual and high risks in the course of insuring crop production in this country. If we were to have significant adverse loss ratios in fiscal year 1984, the capital structure of the Corporation could, possibly, be insufficient to cover the need. That is why we need such emergency borrowing authority. The 1980 Act authorizes this, but it must be approved by the appropriations act.

PREMIUM SUBSIDY AND PRIOR YEAR REIMBURSEMENTS

In regard to the premium subsidy and reimbursement costs for prior years, I want to point out that the 1984 appropriations request for $170 million for premium subsidy represents an increase of $54 million over the 1983 appropriation, and this is based on the assumption that there will be a significant increase in sales in the current year.

In regard to the reimbursement for prior year costs, $24.9 million is requested for reimbursement of commissions and loss adjustment costs incurred in fiscal year 1982. The Corporation greatly expanded its business in that year and borrowed funds sufficient to operate from the premium fund.

PREPARED STATEMENT

This concludes my statement. I will be very pleased to answer any questions or furnish any additional information that you or other members of the committee desire.

[The statement of Mr. Sprague follows:]

STATEMENT OF MERRITT W. SPRAGUE

Mr. Chairman and members of the Subcommittee:

This is my first opportunity to appear before this subcommittee. It is a pleasure for me to appear here to present the 1984 Budget for the Federal Crop Insurance Corporation.

Our budget request for fiscal year 1984 is as follows:

-- $278,987,000 for Administrative and Operating Expenses to fund the expanded crop insurance program. Nearly three-fourths of this amount will be required for reinsurance administrative expense ($99.8 million) and master marketing commissions and loss adjustment functions ($107 million).

-- $170,000,000 for premium subsidy for the 1983 crop year. This represents 30 percent of the expected premium, up to the 65 percent level of coverage, as authorized by the Federal Crop Insurance Act of 1980. The $170 million represents an average of 25 percent of estimated total premium.

-- $24,883,000 for restoration of funds borrowed from premium income in fiscal year 1982 to pay for commissions and loss adjustment functions.

-- Zero funds for Subscription to Capital Stock.

This represents a total budget request for fiscal year 1984 of $473,870,000, for on-going programs. The total for fiscal year 1984 is $54,563,000 less than the total for 1983 appropriations which included $378.4 million for on-going programs and $150 million for Subscription to Capital Stock.

Before getting into the justification for our budget request, I would like to review our accomplishments for the past year, and discuss our current plans and projections.

Crop Year 1982 Experience

Federal Crop Insurance is intended to become the primary form of federal disaster protection for farmers, and eventually replace the many overlapping farm disaster programs. Since enactment of the new legislation in 1980, insurance has expanded from 1,676 counties to 3,000 currently. County programs increased about 225 percent, from 4,629 in 1980 to 15,000 in 1982. Thus, crop insurance is now available in all agricultural counties on the acreage previously covered by disaster payments.

Acres insured and insurance in force have also increased substantially. In 1980, acres insured were 26.6 million compared with 44 million for the 1982 crop year. Insurance in force has more than doubled for the same period, from $3 billion in 1980 to $6.1 billion in 1982.

The current estimates of crop year 1982 experience for the combined efforts of the public and private sector show total premium amounting to over $397 million, and total indemnities of about $488 million, for a combined loss ratio of 1.23.

Premium for the government share of the crop year 1982 insurance operations is estimated at about $318 million, and indemnities at $424 million, for a loss ratio of 1.33. The remaining premium of $79 million was handled by reinsured companies. The indemnities are estimated at $64 million, which results in a loss ratio of .81.

Crop Year 1983 Projections

The fiscal year 1983 appropriations have permitted the Corporation to continue to expand the availability of Federal Crop Insurance. In crop year 1983, insurance is offered on 28 major crops on nearly 16,000 county programs in 49 states and is available in virtually every agricultural county in the United States. Insured acres are estimated at 85 million for the current crop year.

The crop insurance policy has been made more attractive for all producers for 1983 crops. As an incentive for those who participate in PIK (payment-in-kind), the Federal Crop Insurance Corporation will offer increased yield guarantees with no increase in premium. The Corporation can make this offer because it is anticipated that farmers will retire their most unproductive land, raising the expected average yield on the remaining acres left in production.

There have been several administrative and program changes made by the Corporation which should serve to offset any adverse impacts on the program. These changes will provide the representation and sales results for the 1983 crop year that are necessary to make the program a success.

The Corporation adopted a delivery system modification for the 1983 spring crops. The use of individual agents was completely phased out due to the tremendous volume of paperwork handled by the FCIC offices. These agents, under individual agreements in 1982, were urged to become associated with either a company under an agency sales and service agreement or a reinsured company.

In order to provide quality service to the producers, all Federal Crop Insurance sales agents and loss adjusters have been provided training and were required to successfully complete a certification exam. The exam tested their knowledge of the crop insurance program and individual crop contracts serviced in their area.

As a means to effectively use all resources available within USDA, FCIC will continue its Memorandum of Understanding with ASCS. Under this agreement, ASCS will assist us in carrying out the provisions of the Federal Crop Insurance Act, as amended, by serving as the producer contact point for information on the crop insurance program. They will also sell and service crop insurance policies in those areas where agents are not available.

In addition to the above services, a new agreement with ASCS for 1983 has been executed to reimburse ASCS for county level computer support in order to study potential automation benefits.

In conjunction with Texas A&M University, the Corporation has instituted an All-Risk Crop Insurance Evaluation (ARCIE) designed for use by producers in evaluating crop insurance as a risk management strategy for their own specific farm situation. Some Extension Service offices are assisting FCIC in this effort.

Major modifications to the corn, soybean, and cotton contracts increase the insurance coverage offered producers.

Improvements have also been made in the Individual Yield Coverage Program for crop year 1983. This program will allow producers with above average production yields to receive protection based on their individual production history.

Budget Justification for F.Y. 1984

Administrative and Operating Expenses

The appropriation request for Administrative and Operating Expenses for fiscal year 1984 will allow the Corporation to continue expansion into additional county programs and improve the quality of service provided to insured farmers for crop year 1984. Resources are requested to expand insurance coverage from the current level of 44 million insured acres to 85 million insured acres in crop year 1983, and to 106 million insured acres in crop year 1984. For example, new programs will be offered during crop years 1983 and 1984 on stake tomatoes and peppers in several counties in Florida, and a pilot timber program will be implemented.

The major portion of the budget will be used to support private sector delivery systems, as mandated by the Federal Crop Insurance Act of 1980. Two basic forms of delivery are currently in place: reinsured companies, which provide all the fundamental insurance services while FCIC "reinsures" them against catastrophic losses; and general agency sales and service agreements (known as Master Marketers) which provide supervision for at least 25 sales agents who write crop insurance policies on FCIC paper.

Of the amount requested for Administrative and Operating Expenses, almost 75 percent, or $206.8 million, will be used for reinsurance administrative expense, master marketing commissions and loss adjustment costs. The remaining 25 percent, or $72.2 million, will be used for the expenses of field actuarial offices, field operations offices, district directors, ASCS reimbursable work, advertising and sales promotion, Kansas City Operations offices, which includes computer support, and the Headquarters staff.

In total, our fiscal year 1984 request for Administrative and Operating Expenses represents an increase of $43.8 million over the fiscal year 1983 appropriations.

Subscription to Capital Stock

No capital stock is requested for fiscal year 1984. Of the $500 million in capital stock authorized under the Federal Crop Insurance Act of 1980, $400 million was appropriated during fiscal years 1982 and 1983. These funds provided the necessary working capital for the Corporation to meet its contractual commitments to insured producers and to assure financial solvency of the Corporation in order for the private insurance sector to agree to share the insurance risk with the Corporation. We do not anticipate a need for additional working capital, beyond what is available for the coming fiscal year.

Borrowing Authority and Reimbursement Appropriation

The Corporation is, however, requesting this committee to provide emergency borrowing authority from the Secretary of the Treasury beginning in fiscal year 1984 to cover any shortfalls in the Fund in future years. Our basis for this request is 7 U.S.C. 1516, which states that FCIC's borrowing authority may be exercised "only to such extent and in such amounts as are provided in appropriation Acts." We believe this authority is necessary in the event of severe, widespread weather conditions for the Corporation to provide program continuity and operate in a business-like manner. Any future need to seek supplemental appropriations or to borrow from our premium account to cover shortfalls would interrupt the stability of the Corporation and severely damage our ability to provide quality service.

The Corporation also requests reimbursement to replenish the Fund in the event that its funds are depleted by extraordinary demands.

Premium Subsidy and Reimbursement for Prior Year Costs

The fiscal year 1984 appropriation request of $170 million for premium subsidies represents an increase of $54.4 million over the fiscal year 1983 appropriation. This increase is based on the assumption that the total premium on which the subsidy is calculated will increase from $396 million in crop year 1982 to $680 million in crop year 1983. The Corporation is also requesting a total of $24.9 million to reimburse it for agents' commissions and loss adjustment costs paid from premium income in fiscal year 1982.

Exhibits

I would like to have three exhibits inserted in the record. The first exhibit is a revised table of the 1982 crop year experience, by commodity, as of February 1983, and reflects the changes that have taken place since the submission of the President's Budget.

The second set of exhibits (Exhibits II(a), II(b), and II(c)) is a loss ratio table showing that during the 35 years of its existence, the crop insurance program has had 18 years in which premiums have exceeded indemnities, and 17 years in which the reverse has been true. The 35-year loss ratio is 1.12.

The third exhibit is a revised "Analysis of Changes in Capital" for fiscal year 1983 (crop year 1982) and fiscal year 1984 (crop year 1983). The exhibit shows the capital balances presented on page 293 of Volume I of the Explanatory Notes and the revised balances based on current estimates of insurance experience for crop year 1982.

This concludes my statement. We will be glad to answer any questions or furnish any additional information you may desire.

Exhibit I

ESTIMATED CROP INSURANCE EXPERIENCE - 1982
as of February 1983

ALL PROGRAMS
(Dollars in Thousands)

Program	Amount of Premium a/			Amount of Indemnities			Loss Ratio		
	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total	Government Operations	Reinsurance Operations	Total
Almonds	1,741	---	1,741	1,499	---	1,499	.86	---	.86
Apple	629	91	720	1,075	175	1,250	1.71	1.90	1.74
Barley	6,019	1,994	8,013	4,154	1,332	5,486	.69	.66	.68
Bean	3,347	1,489	4,836	9,768	3,466	13,234	2.92	2.30	2.74
Citrus	3,094	416	3,510	2,276	42	2,318	.74	.10	.66
Combined Crop	779	---	779	155	---	155	.20	---	.20
Corn	53,055	19,296	72,351	29,075	8,788	37,863	.55	.45	.52
Cotton	20,446	3,296	23,742	33,085	5,338	38,423	1.62	1.60	1.62
Flax	430	152	582	609	139	748	1.42	.91	1.29
Forage Production.	32	b/	32	51	b/	51	1.61	.10	1.59
Forage Seeding ...	9	1	10	13	b/	13	1.52	.10	1.52
Grain Sorghum	7,216	3,129	10,345	8,508	2,533	11,041	1.18	.80	1.07
Grape	2,374	1	2,375	5,597	b/	5,597	2.36	.10	2.36
Oat	1,509	599	2,108	946	334	1,280	.63	.55	.61
Pea	621	68	689	438	13	451	.71	.19	.65
Peach	231	124	355	1,136	565	1,701	4.93	4.50	4.79
Peanut	9,648	1,651	11,299	7,678	1,253	8,931	.80	.75	.79
Potato	56	124	180	116	88	204	2.09	.70	1.13
Prevented Planting	110	---	110	580	---	580	5.25	---	5.25
Raisin	4,443	---	4,443	37,303	---	37,303	8.40	---	8.40
Rice	2,347	28	2,375	6,856	34	6,890	2.92	1.20	2.90
Rye	23	10	33	6	10	16	.27	.95	.48
Soybean	97,874	12,818	110,692	175,304	14,271	189,575	1.79	1.10	1.71
Sugar Beet	1,168	566	1,734	570	258	828	.49	.45	.48
Sugarcane	1,233	---	1,233	441	---	441	.36	---	.36
Sunflower	4,890	2,090	6,980	7,272	1,798	9,070	1.49	.85	1.30
Sweet Corn	82	8	90	35	2	37	.42	.30	.41
Tobacco	20,884	5,464	26,348	18,647	4,148	22,795	.89	.75	.87
Tomato	752	20	772	1,946	4	1,950	2.59	.20	2.53
Wheat	72,958	25,565	98,523	68,861	19,409	88,270	.94	.75	.90
Total b/	318,000	79,000	397,000	424,000	64,000	488,000	1.33	.81	1.23

a/ Includes government premium subsidy.
b/ Less than $500.

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
TOTAL INSURANCE OPERATIONS

PROGRAM	LOSS RATIOS - 1948-1968 CROP YEAR 1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	PROGRAM
Wheat	.58	1.43	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.57	1.24	.54	1.14	1.01	Wheat
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.70	.46	.84	2.29	3.85	1.92	Cotton
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	.45	.07	.41	2.12	.10	Combined Crop
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.62	.31	.53	.59	.38	.54	Tobacco
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.67	2.04	.45	.94	.66	Corn
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	1.41	.40	.96	.79	.36	Flax
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.58	2.29	1.03	.64	1.35	Bean
Citrus				---	.04	---	---	.03	.22	7.25	.15	.24	2.11	2.36	9.25	.03	.45	1.11	.29	2.75	2.21	Citrus
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.98	1.02	.95	.58	1.27	.78	Soybean
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.53	.24	.42	.62	.43	Barley
Peach										.50	.77	1.13	.76	.63	1.81	1.03	3.50	.54	.95	2.29	.24	Peach
Grain Sorghum												.27	.28	.70	.39	.75	1.03	.50	.42	.76	1.01	Grain Sorghum
Oat												.99	.65	1.26	.47	.60	.69	.22	.60	.48	.39	Oat
Rice													.58	1.03	.64	---	.68	.43	.34	.31	.77	Rice
Raisin														.01	---	3.64	.02	.07	.07	.06	.03	Raisin
Pea															3.08	.53	2.64	.87	2.69	.76	2.77	Pea
Peanut															.35	.77	1.31	.26	.25	.55	.53	Peanut
Potato															2.17	2.21	3.98	1.08	2.27	1.05	1.38	Potato
Apple																.35	.92	.37	1.91	.91	3.33	Apple
Cherry																4.84	.21	1.66	4.33	*	*	Cherry
Tomato																.41	.25	.27	1.81	.64	.97	Tomato
Safflower																	3.02	7.42	2.94	*	*	Safflower
Sugar Beet																		.29	.58	.60	.64	Sugar Beet
Tung Nut																		.08	.32	.15	4.92	Tung Nut
Grape																				1.02	1.25	Grape
Sugarcane																				.07	.20	Sugarcane
Puerto Rico Reinsurance																					.05	Puerto Rico Reinsurance
Sunflower																						Sunflower
Forage-Seed.																						Forage-Seed
Sweet Corn																						Sweet Corn
Forage-Prod.																						Forage-Prod.
Rye																						Rye
Almond																						Almond
Prev. Planting																						Prev.Planting
ALL PROGRAMS	.53	1.31	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.77	.90	1.13	.68	1.27	1.05	ALL PROGRAMS

* No Program

Exhibit II(a)

Exhibit II(a)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
TOTAL INSURANCE OPERATIONS

LOSS RATIOS - 1969-1982

PROGRAM	CROP YEAR 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1948-1982	PROGRAM
Wheat	.74	.46	.42	.42	.83	.97	.51	.94	1.47	.48	.98	2.85	.97	.90							1.02	Wheat
Cotton	2.61	1.33	1.67	.97	.46	2.24	3.22	3.57	.47	1.13	1.48	1.81	1.11	1.62							1.51	Cotton
Combined Crop	.06	.21	.14	.29	1.02	1.06	.61	.46	1.06	.08	.07	5.96	.17	.20							1.14	Combined Crop
Tobacco	1.06	.58	.39	.36	.67	.29	1.06	.91	2.98	.42	1.11	2.59	.89	.87							1.00	Tobacco
Corn	.57	1.17	.37	.25	.25	2.30	1.16	2.40	1.86	.20	.15	1.26	.58	.52							.89	Corn
Flax	.27	.93	.69	.70	1.24	1.94	.98	2.53	1.44	.65	.53	1.97	.89	1.29							.90	Flax
Bean	.82	1.18	.67	.52	.91	.13	.82	.68	1.01	.90	.34	.71	1.01	2.74							1.40	Bean
Citrus	1.75	3.11	.63	1.23	.44	.42	.37	2.66	.28	1.01	.50	1.94	2.21	.66							1.40	Citrus
Soybean	.89	.59	.72	.79	.31	1.01	.39	1.11	.39	.35	.38	2.12	1.79	1.71							1.44	Soybean
Barley	.31	.66	.30	.61	.86	1.53	1.07	1.31	.99	.40	.56	2.39	.82	.68							.87	Barley
Peach	.41	1.19	1.77	2.18	2.41	1.14	1.42	.46	.50	2.17	.15	.62	.35	4.79							1.38	Peach
Grain Sorghum	.41	.96	.58	.87	.23	1.63	.52	.91	.47	1.46	.62	2.95	.93	1.07							1.02	Grain Sorghum
Oat	.43	.47	.25	1.23	1.03	1.05	.53	2.99	.56	.53	.60	2.44	1.42	.61							.92	Oat
Rice	.44	.07	.51	.57	.63	.41	.23	.54	.72	.76	1.55	4.58	1.86	2.90							2.01	Rice
Raisin	.30	---	---	.01	.02	---	.20	11.66	.02	12.13	---	---	.01	8.40							2.68	Raisin
Pea	.72	.98	.59	.52	1.54	.78	.83	.80	2.93	.84	.63	.48	.68	.65							1.19	Pea
Peanut	.63	.22	2.16	.53	.21	.32	.32	.49	.57	.28	.67	8.26	.62	.79							1.04	Peanut
Potato	1.54	*	*	*	*	*	*	*	*	---	.14	---	1.35	1.13							1.87	Potato
Apple	.24	1.65	1.06	3.25	1.31	1.48	.18	1.36	1.93	1.61	.80	.90	1.53	1.74							1.34	Apple
Cherry	*	*	*	*	*	*	*	*	*	*	*	*	*	*							2.61	Cherry
Tomato	1.79	.30	.40	.84	.97	2.38	1.93	.19	.79	.29	1.44	.23	.39	2.53							1.46	Tomato
Safflower	*	*	*	*	*	*	*	*	*	*	*	*	*	*							3.93	Safflower
Sugar Beet	1.28	1.32	.56	1.01	.77	1.13	1.90	.59	.33	.20	.39	.72	.67	.48							.72	Sugar Beet
Tung Nut	.38	2.27	*	*	*	*	*	*	*	*	*	*	*	*							.75	Tung Nut
Grape	2.59	.77	---	4.10	1.55	.11	.10	.25	3.85	.20	.19	.17	.33	2.36							1.48	Grape
Sugarcane	.08	.22	.89	.94	2.79	.50	.46	.64	.84	1.57	.70	1.37	1.22	.36							.78	Sugarcane
Puerto Rico Reinsurance	.05	.16	.01	.08	*	*	*	*	*	.24	*	*	*	*							.14	Puerto Rico Reinsurance
Sunflower								.35	.12	.12	.43	1.83	.72	1.30							1.02	Sunflower
Forage-Seed.										2.39	4.57	5.90	4.55	1.52							3.87	Forage-Seed.
Sweet Corn										.57	.54	.72	1.10	.41							.62	Sweet Corn
Forage-Prod.											.68	3.41	3.31	1.59							2.05	Forage-Prod.
Rye												2.88	---	.48							.49	Rye
Almond													.02	.86							.64	Almond
Prev. Planting														5.25							5.27	Prev. Planting
ALL PROGRAMS	1.08	.94	.60	.60	.60	1.17	.86	1.57	1.46	.50	.65	2.26	1.07	1.23 1/							1.12	ALL PROGRAMS

* No Program

1/ The 1982 crop year ratios are based on estimates as of February 1983 for the Government operations and January 1983 for the Reinsurance operations.

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
GOVERNMENT OPERATIONS

LOSS RATIOS - 1948-1968

PROGRAM	CROP YEAR																					PROGRAM
	1948	1949	1950	1951	1952	1953	1954	1955	1956	1957	1958	1959	1960	1961	1962	1963	1964	1965	1966	1967	1968	
Wheat	.58	1.43	.52	1.06	.85	1.25	1.42	1.26	1.09	.60	.16	.68	.23	1.09	.38	.95	.57	1.24	.54	1.14	1.01	Wheat
Cotton	.43	1.97	2.81	.82	.44	1.05	.56	.84	.67	.54	.25	.45	.52	1.38	1.24	.70	.46	.84	2.29	3.85	1.92	Cotton
Combined Crop	.06	.16	.94	1.65	2.33	.91	1.50	1.42	1.28	.83	.36	1.70	.27	1.23	.76	.45	.45	.07	.41	2.12	.10	Combined Crop
Tobacco	.43	.66	.61	.49	.79	1.90	.89	.40	.28	.34	.19	.38	.35	.29	.79	.62	.31	.53	.59	.38	.54	Tobacco
Corn	.17	.16	1.26	2.38	.25	.17	.56	1.47	3.35	.46	.56	.87	1.45	.23	1.52	.41	1.67	2.04	.45	.94	.66	Corn
Flax	.51	.62	.42	.49	.79	.95	.77	.77	.54	2.46	.45	1.64	.47	1.27	.65	.79	1.41	.40	.96	.79	.36	Flax
Bean	.29	.64	1.84	3.14	.55	.62	1.60	.66	.96	1.03	.32	.91	.59	.54	2.03	.61	1.58	2.29	1.03	.64	1.35	Bean
Citrus				---	.04	---	---	.03	.22	7.25	.15	.24	2.11	2.36	9.25	.03	.45	1.11	.29	2.75	2.21	Citrus
Soybean								.73	.74	.65	.36	.44	.56	.54	.67	.98	1.02	.95	.58	1.27	.78	Soybean
Barley									.39	.35	.39	1.08	.69	1.53	.81	1.05	.53	.24	.42	.62	.43	Barley
Peach										.50	.77	1.13	.76	.63	1.81	1.03	3.50	.54	.95	2.29	.24	Peach
Grain Sorghum												.27	.28	.70	.39	.75	1.03	.50	.42	.76	1.01	Grain Sorghum
Oat												.99	.65	1.26	.47	.60	.69	.22	.60	.48	.39	Oat
Rice													.58	1.03	.64	---	.68	.43	.34	.31	.77	Rice
Raisin														.01	---	3.64	.02	.07	.07	.06	.03	Raisin
Pea															3.08	.53	2.64	.87	2.69	.76	2.77	Pea
Peanut															.35	.77	1.31	.26	.25	.55	.53	Peanut
Potato															2.17	2.21	3.98	1.08	2.27	1.05	1.38	Potato
Apple																.35	.92	.37	1.91	.91	3.33	Apple
Cherry																4.84	.21	1.66	4.33	*	*	Cherry
Tomato																.41	.25	.27	1.81	.64	.97	Tomato
Safflower																	3.02	7.42	2.94	*	*	Safflower
Sugar Beet																		.29	.58	.60	.64	Sugar Beet
Tung Nut																		.08	.32	.15	4.92	Tung Nut
Grape																				1.02	1.25	Grape
Sugarcane																				.07	.20	Sugarcane
Puerto Rico Reinsurance																					.05	Puerto Rico Reinsurance
Sunflower																						Sunflower
Forage-Seed.																						Forage-Seed
Sweet Corn																						Sweet Corn
Forage-Prod.																						Forage-Prod.
Rye																						Rye
Almond																						Almond
Prev. Planting																						Prev.Planting
ALL PROGRAMS	.53	1.31	.91	1.12	.97	1.15	1.24	1.14	1.26	.69	.26	.77	.58	.89	1.10	.77	.90	1.13	.68	1.27	1.05	ALL PROGRAMS

* No Program

Exhibit II(b)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
GOVERNMENT OPERATIONS

LOSS RATIOS - 1969-1982

PROGRAM	CROP YEAR 1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1948-1982	PROGRAM
Wheat	.74	.46	.42	.42	.83	.97	.51	.94	1.47	.48	.98	2.85	.97	.94							1.03	Wheat
Cotton	2.61	1.33	1.67	.97	.46	2.24	3.22	3.57	.47	1.13	1.48	1.81	1.10	1.62							1.51	Cotton
Combined Crop	.06	.21	.14	.29	1.02	1.06	.61	.46	1.06	.08	.07	6.96	.17	.20							1.14	Combined Crop
Tobacco	1.06	.58	.39	.36	.67	.29	1.06	.91	2.98	.42	1.11	2.59	.89	.89							1.01	Tobacco
Corn	.57	1.17	.37	.25	.25	2.30	1.16	2.40	1.86	.20	.15	1.26	.59	.55							.91	Corn
Flax	.27	.93	.69	.70	1.24	1.94	.93	2.53	1.44	.65	.53	1.97	.90	1.42							.90	Flax
Bean	.82	1.18	.67	.52	.91	.13	.82	.68	1.01	.90	.34	.71	1.01	2.92							1.32	Bean
Citrus	1.75	3.11	.63	1.23	.44	.42	.37	2.66	.28	1.01	.50	1.94	2.21	.74							1.41	Citrus
Soybean	.89	.59	.72	.79	.31	1.01	.39	1.11	.39	.35	.38	2.12	1.81	1.79							1.46	Soybean
Barley	.31	.66	.30	.61	.86	1.53	1.07	1.31	.99	.40	.56	2.39	.82	.69							.89	Barley
Peach	.41	1.19	1.77	2.18	2.41	1.14	1.42	.46	.50	2.17	.15	.62	.35	4.93							1.33	Peach
Grain Sorghum	.41	.96	.58	.87	.23	1.63	.52	.91	.47	1.46	.62	2.95	.92	1.18							1.04	Grain Sorghum
Oat	.43	.47	.25	1.23	1.03	1.05	.53	2.99	.56	.53	.60	2.44	1.39	.63							.92	Oat
Rice	.44	.07	.51	.57	.63	.41	.23	.54	.72	.76	1.55	4.58	1.86	2.92							2.02	Rice
Raisin	.30	---	---	.01	.02	---	.20	11.66	.02	12.13	---	---	.01	8.40							2.68	Raisin
Pea	.72	.98	.59	.52	1.54	.78	.83	.80	2.93	.84	.63	.48	.68	.71							.50	Pea
Peanut	.63	.22	2.16	.53	.21	.32	.32	.49	.57	.28	.67	8.26	.62	.80							1.05	Peanut
Potato	1.54	*	*	*	*	*	*	*	*	---	.14	---	1.35	2.09							1.96	Potato
Apple	.24	1.65	1.06	3.25	1.31	1.48	.18	1.38	1.93	1.61	.80	.90	1.53	1.71							1.33	Apple
Cherry	*	*	*	*	*	*	*	*	*	*	*	*	*	*							2.61	Cherry
Tomato	1.79	.30	.40	.84	.97	2.38	1.93	.19	.79	.29	1.44	.23	.39	2.59							1.48	Tomato
Safflower	*	*	*	*	*	*	*	*	*	*	*	*	*	*							3.93	Safflower
Sugar Beet	1.28	1.32	.56	1.01	.77	1.13	1.90	.59	.33	.20	.39	.72	.74	.49							.75	Sugar Beet
Tung Nut	.38	2.27	*	*	*	*	*	*	*	*	*	*	*	*							.75	Tung Nut
Grape	2.59	.77	---	4.10	1.55	.11	.10	.25	3.85	.20	.19	.17	.83	2.36							1.48	Grape
Sugarcane	.08	.22	.89	.94	2.79	.50	.46	.64	.84	1.57	.70	1.37	1.22	.36							.78	Sugarcane
Puerto Rico Reinsurance	.05	.16	.01	.08	*	*	*	*	*	.24	*	*	*	*							.14	Puerto Rico Reinsurance
Sunflower								.35	.12	.12	.43	1.83	.70	1.49							1.04	Sunflower
Forage-Seed.										2.39	4.57	5.90	4.55	1.52							3.97	Forage-Seed.
Sweet Corn										.57	.54	.72	1.10	.42							.63	Sweet Corn
Forage-Prod.											.68	3.41	3.16	1.61							2.03	Forage-Prod.
Rye												2.88	---	.27							.27	Rye
Almond													.02	.86							.64	Almond
Prev. Planting														5.25							5.25	Prev. Planting
ALL PROGRAMS	1.08	.94	.60	.60	.60	1.17	.86	1.57	1.46	.50	.65	2.26	1.09	1.33 1/							1.13	ALL PROGRAMS

* No Program

2/ The 1982 crop year ratios are based on estimates as of February 25, 1983.

Exhibit II(b)

Exhibit II(c)

United States Department of Agriculture

FEDERAL CROP INSURANCE CORPORATION
REINSURANCE OPERATIONS

L O S S R A T I O S - 1981-1982
CROP YEAR

PROGRAM	1969	1970	1971	1972	1973	1974	1975	1976	1977	1978	1979	1980	1981	1982	1983	1984	1985	1986	1987	1988	1981-1982	PROGRAM
Wheat													.78	.75							.76	Wheat
Cotton													1.36	1.60							1.58	Cotton
Combined Crop													1/	1/							1/	Combined Crop
Tobacco													1.59	.75							.78	Tobacco
Corn													.38	.45							.44	Corn
Flax													---	.91							.90	Flax
Bean													.11	2.30							2.31	Bean
Citrus													1/	.10							.10	Citrus
Soybean													.68	1.10							1.06	Soybean
Barley													.71	.66							.68	Barley
Peach													1/	4.50							4.50	Peach
Grain Sorghum													.96	.80							.80	Grain Sorghum
Oat													1.81	.55							.86	Oat
Rice													1/	1.20							1.20	Rice
Raisin													1/	1/							1/	Raisin
Pea													1/	.19							.19	Pea
Peanut													1/	.75							.75	Peanut
Potato													*	.70							.70	Potato
Apple													1/	1.90							.90	Apple
Cherry													*	*							[illegible]	Cherry
Tomato													1/	.20							[illegible]	Tomato
Safflower													*	*							[illegible]	Safflower
Sugar Beet													.10	.45							.32	Sugar Beet
Tung Nut													*	*							*	Tung Nut
Grape													1/	.10							.10	Grape
Sugarcane													1/	1/							1/	Sugarcane
Puerto Rico Reinsurance													*	*							*	Puerto Rico Reinsurance
Sunflower													1.08	.85							.89	Sunflower
Forage-Seed.													1/	.10							.10	Forage-Seed.
Sweet Corn													1/	.30							.30	Sweet Corn
Forage-Prod.													5.00	.10							5.00	Forage-Prod.
Rye													1/	.95							.95	Rye
Almond													1/	1/							1/	Almond
Prev. Planting														1/							1/	Prev. Planting
ALL PROGRAMS													.68	2/ .81							.79	ALL PROGRAMS

* No Program

1/ No insurance written on these commodities by the reinsured companies.

2/ The 1982 crop year ratios are based on estimates as of January 28, 1983.

Exhibit III

Analysis of Changes in Capital
Fiscal Years 1983 and 1984

	F.Y. 1982 Actual	Page 293, Volume I, Explanatory Notes: F.Y. 1983 Estimate (Crop Year 1982--Loss Ratio .95)	Page 293, Volume I, Explanatory Notes: F.Y. 1984 Estimate (Crop Year 1983--Loss Ratio .90)	Current Estimates: F.Y. 1983 Estimate (Crop Year 1982--Loss) Ratio 1.23)	Current Estimates: F.Y. 1984 Estimate (Crop Year 1983--Loss Ratio .90)
Net capital at beginning of year....	$103,265,019	$308,244,836	$512,170,836	$308,244,836	$401,951,836
Additions to capital during the year:					
Recovery of prior year obligations.	52,109	---	---	---	---
Subscription to Capital Stock......	250,000,000	150,000,000	---	150,000,000	---
Appropriation (Premium Subsidy)....	57,456,000	115,575,000	170,000,000	115,575,000	170,000,000
Approp. (Agents' Commissions)......	---	27,658,000	20,251,000	27,658,000	20,251,000
Approp. (loss adjustment costs)....	---	---	4,632,000	---	4,632,000
Subtotal........................	410,773,128	601,477,836	707,053,836	601,477,836	596,834,836
Income:					
Insurance premiums (farmer)........	320,951,486	235,000,000	255,000,000	238,000,000	255,000,000
Reinsurance Program					
Reinsurance income..............	12,808,593	76,000,000	340,000,000	79,000,000	340,000,000
Less: Company share of gain.....	490,800	7,000,000	11,322,000	5,000,000	11,322,000
Amount deferred...........	490,809	2,800,000	4,536,000	2,000,000	4,536,000
Premium Subsidy...........	988,992	19,000,000	85,000,000	20,000,000	85,000,000
Subtotal.............	1,970,601	28,800,000	100,858,000	27,000,000	100,858,000
Net Reinsurance income..............	10,837,992	47,200,000	239,142,000	52,000,000	239,142,000
Reimbursements--ASCS inspection work..............................	19,579	---	---	---	---
Reimbursable income from appropriated funds for Reinsurance Administrative Expenses..........	18,533,543	---	---	---	---
Interest and other income..........	284,213	---	---	---	---
Prior year adjustments.............	18,062	---	---	---	---
Subtotal, income................	350,644,875	282,200,000	494,142,000	290,000,000	494,142,000
Expenses:					
Insurance indemnities..............	399,122,927	315,000,000	306,000,000	424,000,000	306,000,000
Reinsurance Program					
Reinsurance losses..............	8,672,013	55,000,000	306,000,000	64,200,000	306,000,000
Less: Company share of losses...	-159,142	---	---	200,000	---
Net reinsurance losses...........	8,512,871	55,000,000	306,000,000	64,000,000	306,000,000
ASCS inspection work.............	19,579	---	---	---	---
Reinsurance administrative expense.........................	18,533,543	---	---	---	---
Agents' commissions expenses: 1982................$22,085,778 1981 adjustment......-1,834,559	20,251,219	---	---	---	---
Loss adjustment cost (reins.)....	4,631,564	---	---	---	---
Estimated uncollectible premium..	1,546,372	1,507,000	1,632,000	1,526,000	1,632,000
Prior year and other adjustments.	555,092	---	---	---	---
Subtotal, expenses......	453,173,167	371,507,000	613,632,000	489,526,000	613,632,000
Net income or loss for the year....	-102,528,292	-89,307,000	-119,490,000	-199,526,000	-119,490,000
Net capital at end of year...........	$308,244,836	$512,170,836	$587,563,836	$401,951,836	477,344,836
Analysis of Capital:					
Capital stock:					
Authorized.........................	$500,000,000	$500,000,000	$500,000,000	$500,000,000	500,000,000
Unissued...........................	250,000,000	100,000,000	100,000,000	100,000,000	100,000,000
Issued.........................	250,000,000	400,000,000	400,000,000	400,000,000	400,000,000
Paid-in Capital:					
Paid-in surplus....................	37,663,101	37,663,101	37,663,101	37,663,101	37,663,101
Approp. (premium subsidy)........	57,456,000	173,031,000	343,031,000	173,031,000	343,031,000
Approp. (agents' commissions)....	---	27,658,000	47,909,000	27,658,000	47,909,000
Approp. (loss adjustment)........	---	---	4,632,000	---	4,632,000
Cumulative surplus or deficit.......	-36,874,265	-126,181,265	-245,671,265	-236,400,265	-355,890,265
Net capital at end of year.........	$308,244,836	$512,170,836	$587,563,836	$401,951,836	$477,344,836

1982 SALES

Senator COCHRAN. Thank you very much, Mr. Sprague.

I notice in the report of January 1983, that estimates on participation were much higher than they actually turned out to be.

Mr. SPRAGUE. Let me make a few comments in regard to 1982 sales. In 1982, we greatly expanded the number of county programs. This had the net effect of greatly expanding the potential acreage on which the Corporation was making insurance offers. Even though we had nearly $30 million more premium income and more acres covered, when you compare those acres to the potential acres upon which offers were made, the participation rate dropped from 19 percent to 16 percent. I am confident that our ability to sell crop insurance in 1982 was adversely affected by the economy of the farm sector. Many producers did not have discretionary funds available for optional expenditures. Fuel and seed are necessary expenditures if one wants to stay in business. Crop insurance is an optional expenditure.

In addition, 1982 followed a good year for production in much of this Nation. Crop insurance has always been far easier to sell in a year following widespread drought or severe problems which created many losses for producers.

CANCELLATION RATES

Senator COCHRAN. There is a cancellation rate also disclosed in the report. It seems the cancellation rate has gone above what the estimate was. Is this for the same reasons—the general economic conditions on the farm?

Mr. SPRAGUE. I think that has contributed rather substantially to the cancellation rate. It takes a combination of things to increase cancellation rates. There is a widespread perception on the part of some policyholders and some agents selling crop insurance that it is in the best interest of a producer to cancel before the cancellation date. Then, he has some options up until the sales closing date which, generally speaking is 3 or 4 months later. We made a change, effective for 1984 which combines the termination date, sales closing date, and cancellation date. This should have an impact on cancellation rates in the future years.

It has been our experience that many of those producers who do cancel, reinstate their insurance at a later date, either with the Corporation, or they transfer their business to one of the private carriers which we reinsure.

PIK PROGRAM

Senator COCHRAN. What effect will the PIK program have? Will that cause reduced participation in the crop insurance program, in purchase of crop insurance, or will there be more money available to buy crop insurance? What is your assessment?

Mr. SPRAGUE. There is no question that if 82 million acres are retired from production in the United States that the potential acreage on which crop insurance could be offered is reduced. I believe that the incentives we have added with the PIK program will encourage those producers who are currently clients to stay with us. I believe it will give us an opportunity to sell to additional clients—additional policyholders who are not currently insured by crop insurance.

I think there have been sufficient improvements in the 1983 program and that we stand a very good chance of meeting our goals for participation in 1983 despite this total reduced acreage.

PROBLEMS WITH CLAIMS SERVICE

Senator COCHRAN. What about the complaints we continue to hear regarding the slow claims service, the poor qualifications of those who are adjusting or trying to handle claims, and the general ineffectiveness of the Federal Crop Insurance Corporation?

Mr. SPRAGUE. Let me address several aspects of that question in reverse order. In regard to adjusters, for the first time, formal training has been required of every adjuster who will be working for the Federal Crop Insurance Corporation in 1983. I believe that this training will provide a better qualified adjuster to perform this function. I believe it will result in fairer treatment of producers. I believe it will result in improved paper flow through our system, because the error rate will be reduced.

I believe that training will contribute to an improvement on the part of the Corporation in regard to payment of claims in a timely fashion. That is only part of the problem. We have greatly increased our business over a short period of time. We had more claims than we could handle with the kind of system that was in place in 1979 and earlier years. We made changes to the document flow system which, I think, will substantially increase our effectiveness and our timeliness in 1983. We saw substantial improvement in 1982 as compared with 1981. We need to do more. There are operational changes in place which should improve performance in the upcoming year.

INVOLVEMENT OF PRIVATE SECTOR

Senator COCHRAN. Is there a continuing effort being made to involve the private sector more in the Federal crop insurance program? If not, why not?

Mr. SPRAGUE. The private sector plays a very important role in the delivery of services to farmers today. Essentially, all of the Federal crop insurance contracts in place are being sold by private sector agents. We do this through two delivery mechanisms. We reinsure private companies who perform all of the functions of an insurance company. They sell, service, adjust claims, pay losses, and collect premiums. Twenty percent of our business in 1982 was handled in this fashion. The other 80 percent in 1982 was handled by agencies under our agency sales and service agreement.

Private sector agents sold and serviced these contracts. Loss adjustment on those contracts was performed by the Corporation. We have been very pleased with our experience to date involving private sector people. The current situation has given the Corporation the capability of using professionals to do a job that they are well qualified to perform.

SUBMITTED QUESTIONS

Senator COCHRAN. Thank you very much, Mr. Sprague. I appreciate your patience and your response to our questions. I want to reiterate that. I apologize to all of you for the hearing running over about 30 minutes more than what we anticipated. Senator Eagleton has some questions for the record and he has also provided a letter that he has received from Senator Mitchell which contains some FmHA questions and which will be made a part of the record. We will appreciate a timely response to these questions.

[CLERK'S NOTE.—Senator Mitchell's letter and the questions and answers appear on pages 501–09.]

Senator COCHRAN. It may be that I failed to ask some questions that should have been asked this morning. We may submit some additional questions for the record and hope they can be answered promptly.

[The following questions were not asked at the hearing, but were submitted to the Federal Crop Insurance Corporation for response subsequent to the hearing:]

Questions Submitted by Senator Cochran

PARTICIPATION AND CANCELLATION DATA

Question: In your monthly report to the Committee on participation and cancellation rates for January, 1983, it is determined that FCIC will not reach its expected level of participation and that FCIC has experienced a higher cancellation rate than originally estimated.

	Crop year 1983 (Report for January 1983)	
	Original Estimate	Actual 2/28/83
Premium......................	$680,000,000	$233,000,000
Based on Cancellation Rate of..	12%	25.7%
Insured Acreage...............	85,200,000	25,000,000
Participation Rate............	30%	9%

At the time this information was provided, you indicated you did not have data available for reinsured company operations. Is such information available as yet?

Answer: We are right now in the midst of the sales season for most of this spring-planted crop areas. Therefore, it is impossible to know what level the 1983 participation will reach. Past experience indicates a tendency for most farmers make a purchase decision during the last week or two of the sales period. It will be a few weeks before we have a firm indication on the sales of the private companies.

COMPANY TRENDS - PARTICIPATION AND CANCELLATION DATA

Question: Are the companies experiencing the same trends in participation and cancellation rates?

Answer: We do not expect the sales results for private companies to be significantly different than those of FCIC. The FCIC cancellation figure includes policies shifted from FCIC to a private company, and it appears there will be a significant shift of business from FCIC to private companies for 1983. It is very difficult to predict market penetration by the companies for 1983 due to the uncertainties caused by PIK and the generally adequate or more than adequate moisture conditions in the growing areas.

ACCURACY OF 1983 PARTICIPATION AND CANCELLATION DATA

Question: Have you been able to establish the accuracy of this data? If not, how soon can we expect to receive more accurate data?

Answer: FCIC data is accurate at the time the report is prepared. Most farmers have until April 30, 1983 to make changes for the 1983 crop year; therefore, we should be able to furnish more complete and more accurate data for the 1983 crop year by May 31, 1983.

INTERPRETATION OF 1983 PARTICIPATION AND CANCELLATION DATA

Question: Have you had a chance to study this information and determine what it means? Please explain.

Answer: We have not analyzed the information for the purpose of determining what it means because in its present form, it would not provide a realistic indication of participation for crop year 1983.

Question: If these trends are accurate, what will be the impact on the cost of the Federal Crop Insurance program?

Answer: A significant portion of the cost of administering the FCIC program can be attributed to (1) reinsurance administrative expenses, (2) commissions for agents, and (3) loss adjustment costs. These costs are based on participation. If participation decreases, overall operating costs decline. Conversely, if participation increases, operating costs increase.

ASSESSMENT OF CROP INSURANCE PROGRAM

Question: What is your assessment of how the program is working, the extent of cooperation, and the sales that are taking place out in the countryside?

Answer: I am encouraged by progress made in recent months toward our goals of: (1) improving and expanding the insurance offer to producers; (2) building a professional, well-trained, private sector delivery system; and (3) improving the servicing capability of the FCIC. Progress in each of these areas should improve the image of FCIC and result in additional sales.

The cooperation of private sector participants involved in the delivery of crop insurance to producers has improved as a result of communication efforts and joint meetings stressing common goals and mutual interest. Early reports from sales agents suggest an improving image of FCIC in the opinions of potential policyholders. Major efforts have been made by FCIC Management to inform lenders, extension agents, farm managers, and farm organization leaders of the improvements in today's crop insurance program. These people can favorably influence sales of crop insurance.

The bulk of 1983 new sales and reinstatements will be made by agents in the next few weeks. It is too early to assess the degree of success that we can expect.

INCENTIVES FOR PIK PARTICIPANTS

Question: You recently announced and also mentioned in your statement that you are trying to encourage more farmers to buy crop insurance by offering more attractive terms to those who sign up for the new crop reduction program. Please describe those new terms and explain why you think they will be attractive.

Answer: Participating in the PIK program at a level of at least 10 percent but less than 20 percent increases a farmer's yield guarantee for Federal Crop Insurance coverage by 6 percent.

Participating between 20 percent but less than 30 percent will result in a guarantee increase of 8 percent; participating at the maximum of 30 percent will increase the yield guarantee by 10 percent.

This offer is attractive in that the coverage level increases but the premium does not. These yield coverage increases recognize the probability of increased per acre yields on the remaining acreage of program participants. The harvested acreage is expected to exceed the average production potential of the entire farm.

CROP INSURANCE FRAUD

Question: It has recently been brought to my attention that some farmers are deliberately destroying their crops by planting on marginal land or abandoning fields to weeds, insects and drought. Is this true? Is this new?

Answer: The actuarial structure established by the Field Actuarial Offices takes into account the productivity and risk of land insured under a Federal Crop Insurance Corporation contract. Consequently, in almost every case, any land classified as marginal would reflect its capability of producing a given crop as well as the risk involved in producing such crop. The guarantee offered on marginal land would reflect its production capabilities. The Federal Crop Insurance policies clearly state that insureds may not abandon a crop to the Corporation. If this is done, no liability would be assumed on such crop or acreage abandoned.

Our past records show that when crops are hit by a natural disaster such as excess moisture, drought, etc., this enhances the possibility of a secondary cause of loss; i.e., weeds, insects, plant disease. At the time of loss adjustment inspections, all loss adjusters are instructed, and it is so identified on the claim form, that the cause of loss pertaining to such claims be comparable with the surrounding farms in the area. If, upon inspection, it is found that the cause of loss does not compare with the surrounding farms, a complete explanation and justification for payment must be included prior to payment of the claim.

Question: Do farmers file claim losses greater than they actually suffered?

Answer: In a small percentage of cases this may be true--some due to honest errors or incorrect entries being made on loss adjustment forms. We have a very limited number of cases found where intentional withholding or shifting of production has occurred, thereby increasing the amount claimed over what actually occurred.

Question: What role does the FCIC play in these types of cases?

Answer: We have an established quality assurance system whereby a given percentage of claims are reviewed by a neutral party to see if they have been properly documented. In addition to the established guidelines by procedure, a computerized random sample is generated for review on a bi-weekly basis.

CHANGES IN CONTRACTS

Question: Those who contract with the Government frequently complain about the amount of instability of Government contracts. We note that FCIC has come up with new contracts each year for reinsurance and FCIC sales agreements. Can we expect the 1984 contracts that are now being developed for next year to last for some time?

Answer: It is the hope of Federal Crop Insurance Corporation management that the 1984 agreements will need only minor, if any, changes.

CHANGES TO 1984 MARKETING AND REINSURANCE CONTRACTS

Question: What changes will be made in the marketing or reinsurance contracts this year?

Answer: Changes will be considered at the April 26, 1983, meeting of the Federal Crop Insurance Corporation Board of Directors. It is expected that minimal changes to the agreements will be recommended including provisions which will refine the terms of the compensation of the respective agreements.

STABILIZATION OF PROGRAM

Question: I am sure that the terms and conditions of your insurance program have changed rapidly...in fact, faster than agents and farmers can understand. This makes it difficult for farmers to keep up with the way the program works. Do you see things stabilizing with the 1984 program changes?

Answer: Changes have been necessary to address problems and better meet the needs of producers. Major information efforts, including paid advertising, have been utilized to adequately inform agents and producers. While stability is a desired goal, it should not be an excuse for failure to take needed action.

I expect Federal Crop Insurance Corporation to continue to refine contract and agreement terms in an effort to improve operations and build participation levels. Experience is a great teacher and its lessons should not be ignored. The time lag between policy changes and the capability to assess the impact of such changes is sufficiently long that 1984 should be a stable year for the crop insurance program.

EXPANDING COVERAGE

Question: Does your fiscal year 1984 budget request allow for growth in the expanded crop insurance program?

Answer: Yes, the Corporation has allowed for growth in the expanded crop insurance program for fiscal year 1984.

RESOURCES OF OTHER AGENCIES

Question: To what extent are the resources of other agencies and the private sector used to help develop new programs of insurance for crops without protection?

Answer: In developing insurance programs, we continually use the resources available from other agencies and the private sector. We presently are using the resources of the Agriculture Experiment Station at the Mississippi State University to study the potential for developing a catfish insurance program. We are also using the resources of the Forestry Service in developing a timber insurance program.

We are also considering a proposal from the State Agricultural Extension Service at the University of Delaware to do actuarial research on certain vegetable crops in the States of Delaware and Maryland.

USE OF PRIVATE SECTOR RESOURCES

Question: Will the use of private sector resources expedite the extension of insurance coverage to new counties and areas?

Answer: Yes, the private sector resources aid in the expansion of insurance protection to new counties and areas.

Question: What efforts or emphases are being placed on "new sales?"

Answer: FCIC held a meeting with all Master Marketing companies March 15-16, 1983, in Kansas City to encourage companies to spur agents to greater sales efforts for the 1983 spring sales.

FCIC also has marshalled its district directors across the nation to personally contact agents and motivate them to greater sales activity.

In addition, an extensive advertising and sales promotion campaign is being conducted on a national and local basis to inform farmers about Federal Crop Insurance values.

SERVICE TO FARMERS

Question: We hear complaints about FCIC's slow claims service, yet we hear very few complaints about the service provided by private companies. How do the service time lags compare between FCIC and the reinsured companies?

Answer: FCIC's reinsured companies operate under the guidance of individual State Insurance Commissions. These insurance commissions mandate that they will pay their claims within a 30-day period from the time their insureds file. In crop years 1981 and 1982, Federal Crop Insurance has averaged approximately 45 days per claim in the two largest claim years on record. We have established the Corporate policy that commencing in 1983, we will provide the same service within the same 30-day period as our reinsured companies. Many steps have already been taken, some enacted and some still in the planning stage, to assure that we meet this objective.

POLICYHOLDER CANCELLATION RATES

Question: A recent GAO report indicated that almost one in five policyholders cancelled their FCIC insurance. How do policyholder cancellation rates compare between FCIC and private companies?

Answer: We do not yet have firm data on cancellation rates for private companies. A policyholder has up to the sales closing date to reinstate his coverage if he cancelled. We have found that a large share of the policyholders of private companies cancel their policies initially but reinstate before the sales closing date. We would not expect final cancellation rates to differ significantly between FCIC and the private companies.

PERCENT OF BUSINESS AS NEW SALES

Question: What percent of the total book of business is new sales for 1983? How about 1982?

Answer: About 32 percent of the premium generated on 1982 policies was new business. We do not have any figures for 1983 yet since the sales season has several weeks to go.

Question: How do these figures compare between FCIC policyholders and the policyholders who have private policies reinsured by FCIC?

Answer: About 35 percent of the $79 million in premiums written by private companies in 1982 was new business. Approximately 32 percent of the $318 million in premiums generated on 1982 FCIC policies was new business. Again, it is impossible to predict at this time how much of the business will be new for 1983.

PARTICIPATION OF BETTER PRODUCERS

Question: There are complaints by better farmers that FCIC develops insurance rates based on their past insurance experience in the county, yet in many cases only the poor farmers have been insured in the past. What is FCIC doing to make sure that insurance rates are accurate for better farmers within minimum yield variability?

Answer: At no increase in premium, the better farmers may obtain a higher coverage than is provided on the actuarial table based on their yield records for the last three crop years. Also, the crop insurance policy provides for reducing the premium up to a maximum of 50 percent for continuous good experience.

CATASTROPHIC PROTECTION

Question: Crop insurance was designed to provide catastrophic protection. Are there any incentives such as premium discounts for a farmer to combine all acreage of a crop into one unit, thus forfeiting small losses in order to reduce the premium costs?

Answer: Currently we do not have a direct premium discount for size of acreage. However, if an insured has no loss, he may qualify for a premium discount.

PREMIUM DEDUCTION FROM GOVERNMENT PAYMENTS

Question: Many farmers have had their crop insurance premiums deducted from Government payments. Has any mechanism been developed where a farmer can have his crop insurance premium for a FCIC reinsured policy deducted from Government payments?

Answer: The premium obligation for a policy issued by a private insurance company has been considered to be a private debt, much as the account payable for fertilizer purchased by a producer. We are working with ASCS to develop a mechanism whereby the farmer may assign program benefits to his insurance company the same as he can assign his payments to other input suppliers. It should be noted that the private insurance companies are responsible for collecting the premium and must make their reinsurance settlements with FCIC on the basis of premium earned whether they collect or not.

COST OF DISASTER PROGRAMS

Question: Have any comparisons been made of how much money the Government could save if it discontinued disaster loans and other piecemeal disaster programs and made crop insurance the only low yield crop disaster program of the Government?

Answer: No, but the fact that piecemeal disaster programs continue to be available to farmers is a real roadblock to achieving high participation levels in the Federal Crop Insurance Program. As long as farmers believe that the Government will "bail them out" in the event of a disaster, there will be no real incentive to participate in the crop insurance program.

I might add, with respect to cost, that one of the alternative disaster programs (the disaster payments program administered by the Agricultural Stabilization and Conservation Service for feed grains and cotton) cost the U. S. Treasury over $1 billion in fiscal year 1981.

It is the policy of this Administration to replace the disaster program with the Federal Crop Insurance program as the primary source of risk protection for farmers.

COST OF OPERATION

Question: We hear people say that the reinsurance program costs the Government more than if the program was handled by the public sector. Yet most cost comparisons are based on FCIC's costs under the old limited program. How do you expect the costs to compare between the two major delivery systems for crop year 1983?

Answer: For 1983, the total amount of appropriated funds was $235.2 million. The estimate by delivery system is as follows: reinsured companies $119.2 million; master marketers $113.0 million. These cost estimates are based on the projection of each delivery system generating $340 million in premium.

It should be noted that the number of services, and therefore the value of services, provided by reinsured companies and master marketers are vastly different. While master marketers provide management, supervision, and contract servicing, reinsured companies provide those services plus they write their own policies, prepare and distribute their own actuarial books, provide marketing, training, quality control, premium collection and all loss adjustment functions.

As suggested in your question, 1981 and 1982 must be considered as "start-up" years, with the attendant costs implied for both master marketers and reinsured companies. In 1982, the first full year of business for those companies participating in 1981, the cost-to-premium ratio for reinsured companies was 32.61, and for master marketers, 40.65. These ratios, of course, include new companies with limited sales. As the volume of business increases and start-up costs decline, the cost-to-premium ratio is expected to decrease even further.

REINSURED COMPANY EXPENSE ALLOWANCES

Question: We have heard charges that reinsured companies are given generous expense allowances. How do these allowances compare to company costs?

Answer: The commission allowances paid to reinsured companies were based on estimates of FCIC operational expenses. It is very difficult to establish company costs at this time since they have incurred significant start-up costs and since the amount of bad debt incurred by the companies is unknown. Furthermore, costs will vary significantly among companies depending upon their volume and efficiencies. We believe that the commission allowances will approximate long-term costs to the companies, but will not cover their start-up costs immediately. It is believed that the volume of business written by a number of companies will stabilize enough for 1983 to serve as the basis for a cost audit.

The commission allowances provided to the reinsured companies are below those in most private reinsurance arrangements. These allowances are also below the cost figures published for the insurance industry in private publications. Best's Aggregates and Averages published by the A. M. Best Company is an excellent source for these cost figures.

Question: Are there any preliminary figures available?

Answer: FCIC has not accumulated any cost figures yet. We understand that one of their trade organizations, the American Association of Crop Insurers, has gathered limited data. Since the premium volume has grown rapidly, and with the start-up costs involved, we are not sure that the figures will be meaningful.

PRIVATE SECTOR INVOLVEMENT

Question: How many private companies are participating in the reinsurance program:

Answer: We currently have 40 reinsurance agreements in effect. Some of the agreements encompass the business of a number of insurance companies writing as part of a group. We expect several more agreements to be completed within the next few months. There were 17 agreements for the 1981 crop year and 35 for the 1982 crop year.

Question: What is the major reason that more companies are not participating in the program?

Answer: The basis for a company deciding to write crop insurance includes all the factors normally considered when evaluating a particular line of insurance plus additional considerations due to the involvement of a government agency in the program. The complexity of the insurance program is a factor which leads to high start-up costs for those entering this line of business. Another factor is the uncertainty of dealing with a government agency. Companies point to the termination of their involvement in the flood insurance program. The company management must have some confidence that there will be an opportunity to make an underwriting gain over a period of time before they will write crop insurance.

Question: What is being done to correct this situation?

Answer: The steps being taken by FCIC in the management of its program will lead to a substantial increase in the involvement of companies writing crop insurance over the next several years. We are placing a major priority in correcting our actuarial weaknesses so that premiums will cover our losses over a period of time as our enabling legislation mandates. FCIC is also aggressively promoting the reinsurance program. Contacts are being made with many insurance companies to solicit their interest. Our major selling point is that crop insurance is needed by the farmer of this era. FCIC will back the company through a reinsurance agreement that is based upon sound reinsurance principles and is consistent with the reinsurance practices for their other lines of insurance.

CONTRACTING DIRECTLY WITH INDIVIDUAL AGENTS

Question: In 1981 and 1982, FCIC contracted directly with agents to sell policies thus competing with the private companies for agents and requiring duplicate field structures with the companies. We note that FCIC is not contracting directly with individual agents for 1983. Why?

Answer: FCIC eliminated its individual contract agents beginning with the 1983 spring sales because of the difficulty in supervising so many individual contractors and the desire to fulfill the spirit of the FCI Act which requires us to make maximum use of licensed agents and companies.

Question: Does FCIC expect to continue this position?

Answer: Yes; however, ASCS Offices will continue to be used in areas where commission earnings are not sufficient to support private agents for the 1984 and succeeding crop years.

REALIGNMENT OF FIELD STRUCTURE

Question: When will the FCIC field structure be realigned to compensate for the change in marketing responsibility?

Answer: Certain duty changes involving WAE--intermittent--employees have already been made to account for the fact that they are no longer involved in sales.

Other changes in the FCIC field structure are currently under review.

SUBSCRIPTION TO CAPITAL STOCK

Question: This year you are not requesting additional subscription to capital stock. Please explain why no additional funds will be necessary in fiscal year 1984 in this account.

Answer: At this time the Corporation can see no immediate need to request the remaining capital stock. Instead, we are requesting that the Corporation be authorized to borrow additional funds if needed to cover claims in the event of catastrophic losses.

LANGUAGE FOR EMERGENCY BORROWING AUTHORITY

Question: If the Committee does not approve your appropriation language change in regard to emergency borrowing authority, will additional funds be needed in future years?

Answer: If a catastrophic loss should occur in future years, additional funds would be needed. The emergency borrowing authority language was requested in the appropriation request to insure that continuous, reliable service to producers is provided in the event of a catastrophic loss. This type of authority would be used only in the event of such catastrophic losses and would provide for uninterrupted service to producers.

Question: Do you have sufficient funds to cover your claims for 1982 and to meet projected claims for 1983?

Answer: The Corporation has sufficient funds to cover the 1982 claims and assuming the absence of catastrophic losses, the Corporation should have sufficient funds to cover projected claims for 1983.

PREVENTED PLANTING PROGRAM

Question: It is my understanding you have established a pilot Prevented Planting Program in two counties in each of five states, one of which is MISSISSIPPI. Will you please tell us what these pilot programs are and what your findings or experiences are. Do you intend to continue this program?

Answer: The pilot prevented planting program is in the following states and counties:

State	County	State	County
Indiana	Posey Vanderburgh	Ohio	Brown Highland
Minnesota	Kittson Marshall	Wisconsin	Clark Eau Claire
Mississippi	LeFlore Sunflower		

The program began for the 1982 crop year with some participation in all states except Mississippi. Due to an unusually wet spring which prevented crop planting, all states with participation experienced losses in excess of the premium. Some program adjustments were made for the 1983 crop year. We will continue to monitor the program and make appropriate changes.

AQUACULTURE INSURANCE PROGRAM

Question: I understand some research is being conducted on an aquaculture insurance program. Can you give us any indication at this time how this is going if it appears a sound insurance program could be developed?

Answer: The Corporation has a research agreement with the Agriculture Experiment Station, Mississippi State University to develop a Management Record System for Catfish. This agreement runs through December 31, 1983. Mississippi State University will furnish data on the results of their work. We will analyze the information at that time to determine if a sound insurance program can be developed.

ASCS RESOURCES

Question: Will you please explain the utilization of ASCS resources and personnel as of this time by the FCIC?

Answer: ASCS county offices are the contact point for farmers for general information on the crop insurance program in all counties. ASCS is directly involved in the certification of producers' yields for the individual yield coverage program. ASCS is also providing the Corporation with acreage measurement services, as well as availing their records to the Corporation nationwide.

Beginning in fiscal year 1983, ASCS has agreed to allow FCIC district directors to colocate in their county offices, wherever possible. In addition, ASCS is involved in the selling and servicing of all-risk crop insurance in 89 counties, and prevented planting in an additional 10 counties where there are no agents available.

Also, under the new Memorandum of Understanding for fiscal year 1983, FCIC is joining with ASCS in providing county level computer support for some specific field level applications. These applications will be carried out in three counties: Crawford County, Kansas; Fresno County, California; and Brunswick County, Virginia. ASCS will furnish a minimum of 20 hours of clerical assistance per week, a desk, telephone service and other reasonable physical facilities for one FCIC district director in each of these three counties.

ASCS will specify and FCIC will procure one data terminal and two computer driven printers. They will be used to telecommunicate with the County Office Automated System (COAS) computer for development of FCIC systems.

As FCIC systems are developed and released, they will be installed via COAS releases on each county computer for utilization by the FCIC district director. In addition to operating standalone systems, FCIC will be permitted specific access to ASCS data bases for gathering required FCIC program data.

Existing ASCS data is used extensively by FCIC. The actuarial structures for cotton, peanuts, and tobacco are based on actual individual yield data obtained from the county ASCS offices. For sugarcane and sugar beets actual yield data was used from ASCS under the old sugar programs. Many rice programs are set up on individual classifications based on actual yield data from ASCS county offices. Quite a few corn and grain sorghum county program yields and in some instances individual soybean classifications are based on corn or grain sorghum yields. We plan to continue using the available ASCS data.

Question: Do you reimburse ASCS for same?

Answer: Yes, FCIC does reimburse ASCS for services rendered.

QUESTIONS SUBMITTED BY SENATOR EAGLETON

INTEREST RATES CHARGED FARMERS

Question: I am concerned that the benefits of declining interest rates are not being passed on to our farmers. For example, for the first three months of 1983, the Treasury Department directed agency and department heads to charge a 13 percent interest rate on debts owed the Government. The Commodity Credit Corporation has lowered its interest charge to 8-7/8 percent, but the FCIC maintained an 18 percent rate. Why does the FCIC charge farmers so much interest on late premium payments, and why are there two different rates charged by agencies of the same Department?

Answer: The Corporation does not believe the interest rate charged on late premium payments is too high. Even though the insurance attaches at planting, it is not billed until harvest, providing the farmer with as much as six months of free credit. Even at billing, interest charges do not begin until the bill is 30 days overdue.

Lowering the interest rate to a rate below commercial finance charges would remove any incentive for the farmer to pay on time, delaying the cash flow to the Corporation, which could bankrupt the Corporation insurance fund. In addition, such delays would result in higher collection costs to the Corporation.

Question: Does the FCIC have any reason to believe its high interest rates do not discourage the sale of federal crop insurance?

Answer: We have no reason to believe the interest rate charged will discourage Federal Crop Insurance sales.

PREMIUM SOLD BY TYPE OF DELIVERY

Question: For the 1981 and 1982 crop years, what was the premium amount of crop insurance sold by independent agents affiliated with master marketers, by reinsured companies, and by ASCS?

Answer: The premium amounts of crop insurance sold by master marketers, reinsured companies, and ASCS, as of December 31, 1982, are as follows:

	(in thousands)	
	1981 Crop Year	1982 Crop Year
ASCS	$11,790.8	$370.0
MMA's	1,318.7	282,744.0 1/
Reinsured Companies	12,806.4	79,035.5

1/ Does not include $35 million gross premiums sold and serviced by individual agents.

CARRYOVER AND NEW BUSINESS BY DELIVERY TYPE

Question: How much in each category was new business and carryover business, and how much was transferred from one delivery system to another?

Answer: For MMA's, 32 percent was new business and for reinsured companies, 35 percent was new business. The balance was therefore carryover business or was transferred from one delivery system to another.

ACRES INSURED BY EACH DELIVERY SYSTEM

Question: How many acres were insured by each of the three delivery systems?

Answer: The acres insured by each of the three delivery systems are as follows:

	(in thousands)	
	1981 Crop Year	1982 Crop Year
ASCS	1,472.5	69.7
MMA's	41,313.5 1/	33,938.8 1/
Reinsured Companies	1,982.0	11,711.0

1/ For the 1981 crop year, total insured acres for government operations, including ASCS, was 42,786,000. No information is available as to how many acres were insured through MMA's, individual agents, or FCIC offices.

For crop year 1982, 33.9 million acres were insured through government operations. This includes acres insured through individual agents and MMA's. No information is available to determine how much of the insured acres were insured through these two types of delivery.

REINSURED COMPANY EXPENSE REIMBURSEMENTS

Question: For the same years, how much was paid to reinsured companies as expense reimbursement, for loss adjustment and paid or credited as underwriting gain?

Answer: The following amounts, for 1981 and 1982, were paid to reinsured companies as expense reimbursements, loss adjustment cost, and underwriting gain:

	(in thousands)	
	1981 Crop Year	1982 Crop Year
Reinsured Companies:		
Expense Reimbursements...	$3,454.9	$18,505.3
Loss Adjustment..........	773.0	4,604.2
Underwriting Gain........	822.3	7,601.9

COMMISSIONS OF MASTER MARKETING AGENCIES

Question: How much was paid to master marketing agencies as commissions and what were the FCIC's costs for services provided to independent agents?

Answer: The amounts paid to master marketing agencies as commissions, and FCIC's costs for services provided to agents of master marketers, including overhead, are as follows:

	(in thousands)	
	1981 Crop Year	1982 Crop Year
Commissions (MMA's)......	$169.0	$43,560.7
FCIC's costs for services provided to agents of master marketers, including overhead (Allocation of FCIC expenses)........	121.9	71,241.3

SERVICES PROVIDED BY REINSURED COMPANIES

Question: What services do reinsured companies provide for their operating and administrative reimbursements?

Answer: The company is responsible for all sales and service activities, including the printing of actuarial materials and other forms, solicitation of business, processing acreage reports, billing and collection, data processing, marketing and advertising, and agent training and supervision. In addition, for a separate claims reimbursement, the company handles all claims functions including adjuster training, the actual adjustment, claims payment, and defense of any lawsuits. The company or its agents must also absorb any bad debt. The company makes periodic reports to FCIC summarizing the status of its business, plus comprehensive data for actuarial purposes.

SERVICES UNDER 1983 AGENCY SALES AND SERVICE AGREEMENT

Question: Is it correct that master marketers have fewer administrative duties under the 1983 Sales and Service Agreement than under the 1982 Agreement?

Answer: No. FCIC has only taken an added responsibility of certifying agents through its own training programs. This has not relieved Master Marketers of any contractual responsibilities in the administrative area.

DELEGATION OF MORE DUTIES TO MASTER MARKETERS

Question: Would it not be less expensive if the FCIC delegated more duties to master marketers and compensated them accordingly, and would not this delegation result in reduced payments to reinsured companies under the Federal Crop Insurance Act (7 U.S.C. 1508(e))?

Answer: Delegating more duties to master marketers would, theoretically, be less expensive for FCIC because whatever functions master marketers would assume would not have to be done by FCIC personnel. However, increasing the responsibilities of master marketers would essentially make them reinsured companies, an option which is available to them now.

Any changes in the master marketing agreement, including the delegation of more duties, would have no bearing on expense reimbursement payments to reinsured companies, except to the extent that such changes would either increase or decrease the volume of business written by reinsured companies.

PLANS TO INCREASE SALES

Question: What specific plans has the FCIC made to increase crop insurance sales or at least lower its cancellation rate?

Answer: Expected stability in the delivery system should reduce cancellation rates and increase sales. Improved performance by agents and loss adjusters resulting from increased training requirements should help. Efforts to improve the timeliness of agency performance, including claims payment, should result in more satisfied customers. Improved contract terms, combined with individual yield coverage guarantees, should improve the ability of agents to sell to the producer achieving yields above area averages. Expanded information efforts using third parties like extension agents, ASCS offices, lenders, and farm management specialists, should improve the image of crop insurance. Progress in each of these areas should result in added sales.

The Federal Crop Insurance Corporation's Board of Directors took action at its February 23, 1983 meeting to revise the terms of the 1984 wheat, rye, barley and oat contracts to combine the cancellation date with the sales closing date, and in most cases, the termination date. Management expects to recommend similar provisions to be added to other 1984 contracts when reviewed by the Board of Directors. These actions should reduce the number of unnecessary cancellations which are currently later reinstated by producers.

But most importantly, contract servicing will probably have a greater effect on increased sales than any other factor. A happy policyholder will spread goodwill through word of mouth and thereby encourage other producers to participate in the program.

INDIVIDUAL YIELD COVERAGE

Question: How many farmers have signed up for Individual Yield Coverage?

Answer: Farmers may continue to sign up for the 1983 crop year Individual Yield Coverage Plan until the final acreage reporting date in early summer for most crops. The number of insureds participating in this program will be available after the processing of acreage reports is completed in late summer.

Question: How many acres have been so covered, and how much in premiums have been paid?

Answer: The acreage covered under the Individual Yield Coverage Plan will be available after the processing of acreage reports is completed in late summer. For most 1983 crops, the premium will not be paid until this fall.

LOSS RATIOS

Question: I understand there is a substantial difference between the FCIC's loss ratio and the loss ratio of reinsured companies. What is this difference and what accounts for it?

Answer: The estimated 1982 loss ratio (losses divided by total premiums) is 1.33 for FCIC business and .81 for the private companies. The private companies wrote a lesser share of their business for the crops and geographic areas hard hit by adverse weather. FCIC paid particularly heavy losses on raisins in California and on soybeans in the South. The book of business insured by the private companies to date has followed along the same lines as their crop-hail business, which is limited in these two areas.

At the present time, reinsured companies are not writing policies nationwide, whereas FCIC covers virtually every county in the country. Therefore, FCIC has more risk exposure than do the reinsured companies.

REINSURED COMPANY LOSS RATIOS

Question: Is it correct that under the Standard Reinsurance Contract, if the FCIC has a 100 percent loss ratio, which occurs when premiums equal indemnities, the FCIC still pays reinsured companies 4.25 percent of the premiums it collects?

Answer: The 1983 Reinsurance Agreement reflects a basis that the writing company actually breaks even at about a 95 percent loss ratio. The capital costs and uncollected premiums will result in a company losing money if the loss ratio exceeds 95 percent. At a 100 percent loss ratio, the private company will receive reinsurance recoveries from FCIC so that its books will show an underwriting gain of 4.25 percent of the earned premium. It will still not likely be in a profit situation, however.

Achievement of a long-term loss ratio of 90 percent, which is the FCIC objective, will result in both FCIC and the private company accumulating a loss reserve.

Question: Is it correct that even if the FCIC's loss ratio is 120 percent--that is, it collects premiums of $100 and pays indemnities of $120--it still pays each reinsured company $1.25 per hundred dollars, as if there were an underwriting profit?

Answer: A private company that has a loss ratio of 120 percent for a crop year will receive as a reinsurance recovery from FCIC an amount equal to 1.25 percent of premium.

FCIC PROTECTING ITSELF AS A REINSURER

Question: If the FCIC collects $100 in premiums and pays $120 in indemnities, and then additionally pays each reinsured company $1.25, how has the FCIC protected itself as a reinsurer?

Answer: FCIC will accumulate a reserve from its reinsurance operations, providing the actuarial structure set by FCIC is sound. If the actuarial structure is unsound, neither FCIC nor the writing company will benefit.

Question: Is this how reinsurance works in the casualty or life insurance industries?

Answer: Private reinsurance treaties will generally benefit both the reinsurer and the writing company if the writing company utilizes a sound actuarial structure and employs sound operating practices. The companies that we are reinsuring do utilize established business practices. Whether FCIC makes an underwriting gain or loss on its reinsurance business, therefore, primarily depends on the actuarial structure.

REIMBURSEMENTS TO REINSURED COMPANIES

Question: Given a loss ratio of 120 percent on premiums of $100, is it correct that the FCIC would also pay each reinsured company 27 percent of the premiums for administrative and operating expenses on new sales (or $27) plus 4 percent of the premium ($4.00) and 3 percent of the net loss ($.60) for loss adjusting costs, as well as $1.25 for reinsurance?

Answer: A private company reinsured by FCIC having a loss ratio of 120 percent on new premium sales of $100 would receive the following:

Commission for Admin. & Oper. Expenses @ 27%	=	$27.00
Loss Adjustment Expenses @ 4% of Premiums	=	4.00
Loss Adjustment Expenses @ 3% of Total Loss	=	3.60
Reinsurance Recovery @ 1.25% of Premium	=	1.25
Sub-total		$35.85
Loss Recovery under Gain-Loss Agreement (Producer indemnification)	=	20.00
TOTAL		$55.85

LOSS ADJUSTMENT CONTRACT

Question: I understand the FCIC has published a loss adjustment contract whereby losses under Federal Crop Insurance policies will be adjusted by private contractors who will be paid an hourly rate. Why are these contractors not paid a percent as reinsured companies are, or why are those companies' adjusters not paid an hourly rate?

Answer: In 1982, Federal Crop Insurance contractors were reimbursed based on a piece work basis; i.e., a fixed amount for every loss unit adjusted. The quality of Federal Crop Insurance Corporation's loss adjustment work seemed to deteriorate under this concept. Commencing with 1983, as stated in your question, Federal Crop Insurance will reimburse its loss adjusters on an hourly basis, the same way all reinsured companies do. In fact, our hourly reimbursement rate was established in conjunction with the present rates used by the private sector.

AGENT CERTIFICATION AND TRAINING

Question: Please explain why agents of reinsured companies are not required to be trained and certified?

Answer: FCIC implemented an agent certification training program to assure that FCIC policy would be professionally and properly sold and serviced. The training and certification program was developed as an integral part of the structure and methods utilized to supervise and motivate these agents.

The private insurance companies reinsured by FCIC are responsible for the performance of their agents. The states generally require that these companies utilize licensed agents, and annual training is often a requirement for holding a license. The companies have training programs that provide the agent the information necessary to properly handle their business. The educational needs for the agent can differ from that required by FCIC agents due to differences in the operating practices of the companies and their supervisory practices.

REINSURED COMPANY TRAINING PROGRAMS

Question: If reinsured companies have their own training programs, does the FCIC audit those programs to ensure they are adequate?

Answer: FCIC has worked closely with the private insurance companies and their trade organizations in developing training programs. FCIC staff has reviewed the content of industry training programs.

AGENTS WHO FAILED FCIC'S TRAINING PROGRAM

Question: How many agents have failed the FCIC's training program, and what happened to their books of business upon their failure?

Answer: About 15 percent of the agents taking the FCIC Agent Certification training failed. Their books of business have been transferred to other certified agents of master marketing or reinsured companies or are in process of transfer.

Question: Does FCIC have any data on how many of those agents subsequently went to work for reinsured companies, and whether they took their business with them?

Answer: There is no data available.

FUNDING REQUIREMENTS AT VARIOUS PARTICIPATION LEVELS

Question: What level of funding would be required by FCIC for administrative and operating expenses in F.Y. 1984, assuming farmer participation at 10 percent of the potentially insurable acreage? 15 percent? 20 percent? 30 percent?

Answer: The level of funding required for administrative and operating expenses in F.Y. 1984 would depend on: (1) the level of farmer participation for crop year 1983; (2) the cancellation rate assumed for crop year 1983; and (3) the delivery mix;--as well as the farmer participation rate for crop year 1984.

For purpose of estimating the funding requirements under the various farmer participation levels for 1984, the Corporation is assuming the following:

(1) Crop Year 1983 participation rate of 30 percent;

(2) crop year 1983 cancellation rate of 12 percent; and

(3) delivery mix: 50 percent of business handled by reinsured companies and 50 percent handled under agency sales and service agreements (master marketers).

Using the above assumptions, the estimated levels of funding for fiscal year 1984 are as follows:

Farmer Participation	Funding Levels
10 percent	$136 million
15 percent	$163.2 million
20 percent	$191 million
30 percent	$253.6 million

CROP INSURANCE BEING DEPENDENT UPON FARM PROGRAM

Question: To what extent will participation in crop insurance in F.Y. 1984 be dependent upon the farm program announced for that year?

Answer: The level of price supports, availability of international markets, changes in transportation costs, etc., will all have an effect on a farmer's potential earnings and therefore his interest in protecting his investment. There is no way to determine, however, to what degree such a correlation exists between risk management decisions and the profitability of a farm operation.

Certainly, an acreage reduction program which removes sizeable acreage from production directly reduces the potential sale of crop insurance. The other programs would have a less direct impact and are therefore less capable of measurement.

FUNDING LEVEL WITH 15 PERCENT PARTICIPATION FOR CROP YEAR 1983

Question: Assuming participation in F.Y. 1983 achieves 15 percent of the potentially eligible acreage, what will be the amount of unexpended administrative and operating funds at the end of F.Y. 1983?

Answer: If a participation rate of 15 percent is assumed for crop year 1983, the amount of unexpended administrative and operating expenses at the end of fiscal year 1983 is estimated at about $70 million.

SUBCOMMITTEE RECESS

Senator COCHRAN. Secretary Naylor, thank you all for being here this morning and for being part of this panel. We appreciate your cooperation with the committee.

The next hearing we will have will be on Tuesday, April 12, beginning at 9:30 a.m., when we will hear from the Food and Drug Administration, the Commodity Futures Trading Commission, and the Farm Credit Administration.

The subcommittee now stands in recess.

[Whereupon at 12:30 p.m., Thursday, April 7, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, April 12.]

AGRICULTURE, RURAL DEVELOPMENT, AND RELATED AGENCIES APPROPRIATIONS FOR FISCAL YEAR 1984

TUESDAY, APRIL 12, 1983

U.S. SENATE,
SUBCOMMITTEE OF THE COMMITTEE ON APPROPRIATIONS,
Washington, D.C.

The subcommittee met at 9:40 a.m., in room SD–138, Hon. Thad Cochran (chairman) presiding.

Present: Senators Cochran and Stennis.

FOOD AND DRUG ADMINISTRATION

STATEMENT OF ARTHUR HULL HAYES, JR., M.D., COMMISSIONER

ACCOMPANIED BY:
- MARK NOVITCH, M.D., DEPUTY COMMISSIONER OF FOOD AND DRUGS
- THOMAS SCARLETT, CHIEF COUNSEL
- GERALD F. MEYER, ASSOCIATION COMMISSIONER FOR MANAGEMENT AND OPERATIONS
- FRANK P. CLAUNTS, DIRECTOR, DIVISION OF FINANCIAL MANAGEMENT

OPENING STATEMENT

Senator COCHRAN. The subcommittee will come to order.

This morning, we are happy to welcome representatives of the Food and Drug Administration, the Commodity Futures Trading Commission, and the Farm Credit Administration as witnesses on behalf of the budget request submitted by the administration for programs under the jurisdiction of this committee.

We will operate with three panels. Panel one will be the Food and Drug Administration, which is responsible for establishing and enforcing food and product standards. Its mission is to insure the safety of food, drugs, cosmetics, biological products, and certain medical devices and other technology. Although it is a part of the Department of Health and Human Services, FDA is under the jurisdiction of this subcommittee for the purpose of appropriations, primarily because of its role in insuring the safety, quality, and proper labeling of food products.

The budget request this year is $385.9 million, an increase of $31.8 million over fiscal year 1983, including supplementals.

I want to welcome to the subcommittee Dr. Arthur Hull Hayes, Jr.

Dr. Hayes, we invite you to introduce those who accompany you this morning and to proceed to summarize or make any comments you wish.

Dr. HAYES. Thank you very much, Mr. Chairman, and good morning to you and Senator Stennis.

I appreciate the opportunity to appear before this subcommittee to discuss the Food and Drug Administration's budget request for 1984. I would like to introduce my colleagues at the table. At your extreme left is Mr. Thomas Scarlett, the Assistant General Counsel in the Food and Drug Division of the Office of General Counsel for the Department of Health and Human Services; to my right, Dr. Mark Novitch, Deputy Commissioner of Food and Drugs; to my immediate left is Mr. Gerald F. Meyer, Associate Commissioner for Management and Operations; and to his left is Mr. Frank Claunts, who is the Director of the Division of Financial Management in the Food and Drug Administration.

There are a number of topics I would like to review with you today and a few points I would like to particularly emphasize with a couple illustrations. First, I should like to discuss two areas of continuing interest to this committee over the past few years—orphan product development and the drug approval process. I will also review briefly the major product emergency of this year—Tylenol—and the requested 1983 supplemental for a contingency fund. Then, I will discuss briefly some important aspects of our 1984 budget request. Finally, I will share with you some results of a recent Roper survey of consumer awareness and impressions of FDA.

ORPHAN PRODUCTS

One of the agency's highest priorities continues to be to encourage the development of orphan drugs and other medical products of limited application. Last year, FDA created an Office of Orphan Products Development, which has aggressively sought both to identify and to promote the testing and approval of these products. This new office has developed an agencywide alert system for identifying new therapeutic entities which show promise in treating and diagnosing rare diseases. Over the past year, FDA has approved new drug applications for five orphan drug products and moved decisively to establish a comprehensive program for orphan product development. We have also assisted in locating sponsors for 18 products useful in rare diseases, and 3 more are currently pending.

Since research funding is critical in this area, we are working closely with the Orphan Products Development Board and with our sister Public Health Service agencies, the National Institutes of Health, the Alcohol, Drug Abuse and Mental Health Administration, and the Center for Disease Control, to find ways of funding studies of promising products and to coordinate research efforts. We also continue to work with other Federal agencies and outside groups, such as the Pharmaceutical Manufacturers Association Commission on Drugs for Rare Diseases and the Generic Pharmaceutical Industry Association to promote further research. The increase in resources provided by this committee in 1983 for orphan drug product development will be used to fund such research studies.

You also might be interested, Mr. Chairman, in a report we have developed that reviews the activities and accomplishments of the agency between May 1982 and February 1983, and I would be very happy to submit this for your perusal and for the record.

Senator COCHRAN. We would like for that information to be made a part of the record to accompany your testimony.

Dr. HAYES. Thank you, sir.

[The report follows:]

REPORT ON ORPHAN PRODUCT DEVELOPMENT

FDA ACCOMPLISHMENTS AND ACTIVITIES

ORPHAN PRODUCT APPROVALS

During the period from May 1982 to February 1983, FDA approved New Drug Applications on five Orphan Products. In keeping with the Agency's policy to grant priority review to products which represent important improvements over existing therapy or treatment of serious illness, the following products were approved during the year. In the interactions leading to approval of these products, significant resources were devoted to guidance to sponsors on protocol development and analysis of data, design of the New Drug Applications to meet FDA requirement, numerous meetings, and encouragement for sponsors to continue with pre-submission activities in spite of little promise of economic return. The products approved were:

Streptozotocin

This naturally occurring nitrosourea is an antibiotic which has been useful in treating functional malignant pancreatic islet-cell tumors. The drug is capable of inhibiting synthesis of DNA in microorganisms and mammalian cells. Biochemical studies have also revealed potent inhibitory effects on pyridine nucleotides and on key enzymes involved in glyconeogenesis. Previously, the drug was available only through the National Cancer Institute. During 1982 the NDA for streptozotocin was approved for the treatment of metastatic islet- cell carcinoma of the pancreas.

Sulfadoxine-Pyrimethamine

In treating malaria, there is a need to attack the infection concurrently, at several stages in the metabolic pathway. Pyrimethamine and sulfadoxine, when administered in combination, possess about eight times the effective potency of either substance used alone in experimental malarial infections. Several trials confirmed that the combination product provided an augmentative effect both in the suppression and treatment of P.falciparum infections, especially chloroquine-resistant strains. Although malarial infections are extremely rare in the U.S., the combination product provided a priority status for review and approval due to the dramatic increased unit-dose effectiveness of this combination product.

Gonadorelin Hydrochloride

This synthetic compound is a potent releaser of luteinizing hormone (LH) and to a lesser extent of follicle stimulating hormone (FSH). The substance was approved for use in evaluating patients with suspected gonadotropin deficiency, and for evaluating gonadotropic function of the pituitary following removal of a pituitary tumor.

Alprostadil or Prostaglandin E-1

This substance is a potent vasodilator normally present in man. It has been demonstrated to be safe and effective for use in treating infants who have a diversity of congenital heart defects and who depend on the patent ductus for survival. The substance was approved for temporary use to allow time for surgery to correct congenital heart defects in infants.

Sodium Cellulose Phosphate (SCP)

Sodium Cellulose Phosphate (SCP) is a synthetic compound made by phosphorylation of pure cellulose which has excellent ion exchange properties, particularly in that the sodium ion, when administered orally, absorbs calcium. In the stomach, sodium from SCP exchanges for calcium, forming an insoluble complex which is excreted. This characteristic of SCP makes it a highly promising treatment for clinical use in patients who exhibit absorptive hypercalciuria and renal stones. This condition renders urine supersaturated with calcium salts which frequently result in stone formations. FDA has facilitated the review process for this product which offers promise of substantial improvements over previous therapies. The manufacturer submitted a new drug application which was approved during 1983.

Other Accomplishments

Additionally, during the period May 1982 to February 1983, the Agency moved decisively to establish a comprehensive program for orphan product development. The following actions were accomplished during this period:

Established an Office of Orphan Products Development (OPD). The OPD was established, provided with a staff and resources within the Office of the Commissioner, to provide the program visibility and an agency-wide scope of operations. Although historically the Agency has implemented policies directed at expediting availability of orphan products, this action marked a significant new direction for the Agency by a formal program of proactive product identification and evaluation.

Pursued a comprehensive program to identify orphan products with promise of effectiveness and safety for common or uncommon conditions. The identification effort included:

- Work with The Pharmaceutical Manufacturers Association's Commission on Drugs for Rare Diseases and the Generic Pharmaceutical Industry Association to initiate and facilitate the availability of selected orphan products.
- Contacts with the medical community, professional organizations academia, individual pharmaceutical and device manufacturers, domestic and foreign governments and the public to obtain information on products with promise of effectiveness for rare diseases and to explore routes of evaluation and availability.

Compiled a list of drug products approved outside the U.S. for specific diseases. This effort involved working with the World Health Organization to contact appropriate officials in 20 countries for information on the status of governmental approval for each entity. As the information was received, the data were reviewed to determine the status of similar products for these indications in the U.S. Promising products will be the subject of more comprehensive reviews of existing safety and efficacy data.

Provided administrative and program support to the PHS Orphan Products Board in support of the Board's activities in coordinating federal activities related to orphan product development. Worked with Board members representing the Departments of Defense, Health and Human Services, and the Veterans Administration to establish inter-agency and interdepartmental contact and coordination on orphan products. Referred one product to the Board for assistance in obtaining necessary sponsorship.

Established a program to evaluate research on safety and efficacy of promising orphan products once they were proposed for consideration or otherwise identified.

- Prepared thirty-five comprehensive orphan product reviews or exhaustive literature searches to determine existence of scientifically valid and controlled animal and clinical studies These reviews provide the assessment of the status of current research, the rigors of controls, and the extent to which the product has scientifically demonstrated promise of effectiveness sufficient to justify follow up or further development by FDA staff.

- Concluded scientific review of data on 300 investigational new drugs or devices from studies sponsored by individual investigators and manufacturers for products which were designated as potential orphan products.

- Reviewed preliminary data on studies with 45 sponsors of orphan products to determine the existence of a basis of approval for the products. Provided feedback to these sponsors on need for and design of further studies to allow a basis for FDA evaluation and approval.

Conducted research on orphan drugs.

- Initiated in-house research at the National Center for Toxicological Research on the toxicity of triethylene tetramine dihychochloride (TETA), which has demonstrated efficacy in the treatment of Wilson's disease.

- Additionally, the Office of Biologics has conducted studies on:

  - Cytomegalo (herpes) virus to profile the biology and immunology of the virus

  - Development of an acceptable pertussis vaccine for routine immunization of children who have a high probability of adverse reaction from the current whole cell vaccine.

  - Anti-Thrombin III and A2 Plasmin Inhibitor to further refine the technology and production of such factors for individuals with rare diseases affecting blood plasma

  - Varicella Zoster virus vaccine as a potential treatment for preventing chicken pox in children with leukemia.

Pursued activities to locate sponsors to conduct research and/or provide a commercial source for orphan products. Activities included:

- Obtained commitments from 14 sponsors to pursue commercial availability of specific orphan products.

- Granted INDs for treatment purposes to 234 products. Treatment INDs are granted for those situations in which products are not commercially available but have demonstrated promising effectiveness and safety for serious conditions. If patient need is proven, the agency grants IND status to allow distribution of the products to those patients in need.

- Published three Federal Register notices inviting sponsors to submit a New Drug Application for the use of triethylene tetramine dihychochloride in penicillamine intolerant patients with Wilson's disease, the use of ethanolamine oleate in treating bleeding esophageal varices and the use of monooctanoin in dissolution of cholesterol gallstone

- Drafted an interim Federal Register notice to provide guidance to sponsors seeking recommendations on clinical studies under designation of orphan drugs under Section 526 of the Orphan Drugs Act (P.L. 97-414).

PROFILES ON ORPHAN PRODUCTS

The remainder of this report provides accomplishment profiles on specific orphan products for which FDA devoted resources in FY 1982. The report is organized as follows:

1. Food Additive Petitions, NDAs, PMAs Submitted to FDA in 1982
2. Sponsor Commitments to Perform Studies or to Submit PMAs, NDAs
3. INDs Granted for Treatment Purposes
4. Actions Taken to Locate Sponsors
5. Products Subject to Current FDA Research
6. Proactive Orphan Product Reviews

FOOD ADDITIVE PETITIONS, NEW DRUG OR DEVICE PREMARKET APPROVAL APPLICATIONS SUBMITTED TO FDA IN 1982

FDA received Food Additive Petitions and New Drug or Device Applications for the following products during 1982. The stimuli to receipt of these applications varied for each of these products. For some products, FDA's extensive efforts to encourage research and sponsorship of devices, drugs, or foods of limited commercial value prompted a sponsor to complete the necessary studies and seek approval. For other products the sponsor provided the impetus.

Numerous pre-submission meetings took place with sponsors prior to receipt of the PMA or NDA. These meetings allowed FDA to provide direction and guidance for the scientifically sound research necessary for the indication claimed. For significant new therapeutic entities, FDA provided priority review of available data.

Cromolyn Sodium Ophthalmic Solution (disodium cromoglycate)

Vernal Keratoconjunctivitis (VKC) is an external ocular inflammatory disease which occurs more frequently in children and which is exacerbated in the Spring of each year. The disease is characterized by intense ocular itching, tearing, photophobia or burning sensation. Keratitis or vascularization may occur. Although the most effective past treatments were with topical corticosteriods, they carry the risk of long term complications such as glaucoma, cataract and herpes simplex keratitis. Recent studies heve demonstrated promising efficacy for VKC with application of cromolyn sodium which appears to be tolerated over long term use without significant side effects. Data in an NDA submitted recently by a sponsor are under review.

Acetohydroxamic Acid

This product has demonstrated promise of efficacy in preventing stone growth in patients with struvite or infected stones. During 1982 a new drug application was submitted to FDA for this indication. FDA facilitated the review of the NDA through pre-NDA meetings and post-submission meetings, to better provide direction to information needed to support approval. The Orphan Products Office provided a Summary Basis for Approval to NCDB, thus facilitating the approval process. The product has been studied under grants from NIH and the Veterans Administration.

Alpha Feto Protein (AFP) Diagnostic Kit

Elevated serum levels of AFP occurring in adults has been linked to advanced carcinoma appearing in the liver, testes and ovaries. Although health facilities throughout the world are routinely using AFP tests to manage and evaluate results of cancer therapies, no commercially available kit has been marketed in the U.S. FDA's Office of Medical Devices has been encouraged to consider the need for a commercially available standard kit. The Orphan Products Office met with manufacturers, the Office of Medical Devices, and an advisory committee to facilitate development of AFP as an adjunctive diagnostic device in the management of testicular carcinoma.

Hematin

Hepatic porphyrias are a group of uncommon, usually hereditary disorders resulting from disturbances in porphyrin metabolism. They are characterized by acute attacks of abdominal pain, vomiting, digestive disorders, and infrequently, hypertension and tachycardia. Neurological impairment and convulsive seizures can occur suddenly and may led to respiratory paralysis. Hematin is a biological product which has been found to have documented biochemical effect in patients with hepatic porphyrias. Because of lack of commercial value, it is only available as an investigational drug, produced in the laboratory of the principal investigator. A commercial firm recently submitted a licensing application. The Office of Orphan Products is working with the Office of Biologics and the firm in resolving certain deficiencies in the application.

Keto hydroxy Analogues of Amino Acids

Since 1972 there have been a number of reports published by the U.S. investigator/supplier concerning the usefulness of certain keto hydroxy analogues of amino acids. As a dietary supplement, these products limit nitrogen intake, while promoting nitrogen balance and tissue building in a variety of metabolic diseases, e.g., chronic renal disease, chronic liver disease, urea cycle enzyme defects, fasting in obesity, etc. Composition has been tailored to the particular conditions being treated, and an I.V. form was available for acute use in hepatic or hyperammonemic coma. On the investigator's initiative, a commercial firm recently submitted Food Additive Petitions to market the oral products for dietary management of chronic renal disease and chronic liver disease. The petitions are under review by the Bureau of Foods.

PRODUCTS FOR WHICH A SPONSOR HAS MADE A COMMITMENT TO CONDUCT INVESTIGATIONAL STUDIES OR TO INITIATE SUBMISSION OF AN NDA or PMA

The following group of products reflects the area of most intensive activity in the fledgling FDA orphan development program. These products represent the commitments made by sponsors as a result of FDA intervention to encourage or to seek sponsors for research or marketing of orphan products. In some cases the prospective sponsor has made initial contact to determine FDA's understanding of the need for the product and the non-existence of investment incentives. In other cases FDA has initiated contact to locate potential sponsors of a product which is being formulated in small labs for research purposes but is not available to a widely dispersed population in need. The interaction between the parties is delicate, since the spectre of high research costs and overly stringent FDA standards can easily scare off potential sponsors.

The commitments by sponsors for these products represents a high level of intensive FDA effort to "walk the line" between rigorous standards of research necessary to prove safety and efficacy and the potential benefit which would accrue to individuals afflicted with conditions for which no therapeutic alternatives exist.

Isobutyl-2 Cyanoacrylate (Bucrylate or IBCA)

The cyanoacrylates are a homologous series of monomeric organic molecules which polymerizo and adhere when they contact living tissues. As a monomer, the material is a liquid, but when it comes in contact with charged ions of the blood, it undegoes polymerization within seconds. As polymerization occurs, the adhesive solidifies into a glass-hard substance. The Ethicon product is distributed in 0.5 ml. sterile ampuls. Routes of administration include:

- Intradermal-Intravascular introducion via catheterization.
- Syringe or pipette for drops.
- Combination with aerosol for spray applications.

Currently bucrylate is not available as a commerical product but is supplied to physicians by the current manufacturer, for emergency use only. Over 30 different uses have been reported in the literature employing the tissue adhesion properties of bucrylate. The most promising indications at this time include sealing of corneal perforations, artificial arterio-venous, embolization of tumors, hemostasis for uncontrollable gastrourinary bleeding, and sealing of cerebrospinal fistulas. U.S. manufacturers of this product experience little commercial incentive to warrant extensive studies of safety and efficacy.

The clinical-surgical procedures coincidental in applying the product provide great opportunity for adverse results and resultant liability. Consequently, although the product has been available since the early 1970's for emergency use, no manufacturer has moved to complete the studies necessary for premarket approval. FDA initiated a meeting with the manufacturer to encourage use of existing studies to justify approval for selected indications. The manufacturer has agreed to compile the necessary data to support premarket approval and commercial distribution. OPD is also working to schedule a symposium to exchange information on the diverse number of experimental applications for IBCA.

Bacitracin (oral)

Bacitracin U.S.P. is currently approved for use in humans as a topical antibiotic. The compound was previously marketed as a parenteral. Recently, the topical product has been administered orally to patients with diarrahea associated with pseudomembranous enterocolitis due to Cl difficile toxin. Published data suggest that the use of bacitracin appears to offer promise of equal effectiveness with vancomycin, the only FDA approved drug for this indication. Bacitracin has the added advantage of being much more readily available and far less expensive than vancomycin.

The Office of Orphan Products Development has met with a manufacturer and FDA reviewers concerning additional clinical data necessary to support the proposed NDA. A commitment has been made by the manufacturer to submit an NDA.

Vitamin E (injectable)

Vitamin E deficiency in children has been associated with various malabsorption situations including chronic cholestasis and abetalipoproteinemia. Vitamin E deficiency results in progressive neuromuscular symptoms of ataxia, gait disturbance, poor muscle control, areflexia and motor weakness. The exact role of Vitamin E in the nervous system is unknown. However, Vitamin E injectable and oral dose forms appear to have effectiveness in the prevention and treatment of the progressive neuromuscular syndrome related to Vitamin E malabsorption. There is published evidence that the injectable form appears to be effective when patients do not properly absorb the oral form. At least two controlled trials are in progress. The Office of Orphan Products Development has met with FDA reviewers and the manufacturer, Hoffman-La Roche. The firm agreed to submit an NDA in mid-to-late 1983.

Methacholine Chloride

Methacholine is a parasympathomimetic drug that produces bronchial smooth muscle constriction when delivered by aerosol. This drug has been widely used by chest physicians and allergists for the testing of patients with suspected bronchial hyperactivity. Clinicians must formulate the inhalable compound from raw materials due to the unavailability of a commercial product. Hoffman-La Roche has agreed to sponsor an NDA for this compound and has met with the Office of Orphan Products Development and NCDB to discuss necessary studies.

Ethanolamine Oleate (EO)

A common procedure for treatment of bleeding esophageal varices (ruptures in the blood vessels in the wall of the esophagus) involves esopagogastric tamponade: the introduction of a ballon catheter into the esophagus which exerts pressure and hemostasis on the varices. Rebleeding may occur when the catheter is removed. Injection of EO into the varices has been demonstrated to be useful in preventing rebleeding when the catheter is removed and in shortening the time that the tube needs to be in place. This procedure is particularly for those who are poor risks for emergency surgical procedures.

Amiodarone

This drug has promising effectiveness for control of serious cardiac arrhythmias. Toxicity questions exist, however and may limit the use of the product to cardiac arrhythmias refractory to other drugs. The Office of Orphan Products Development obtained a sponsor with coordinated activity involving NCDB. The NDA is to be submitted before 1983.

Deprenyl

Parkinson's Disease is common with increasing age. The overall prevalence is about 1 in 1000. After the age of 50 the rate of occurrence increases to 1 in 100. Five to ten percent of patients have a family history of the disorder. Parkinson's Disease is an incapacitating neurologic disorder of unknown etiology, characterized by increasing levels of disability and a high rate of coincidental mortality. Symptoms begin with tremors followed by increasing bradykinesia, rigidity, lack of facial expression, infrequent blinking, and shuffling gait.

Deprenyl is a monoamine oxidase inhibitor. It has been reported to selectively inhibit monoamine oxidase B in the brain and thus prevent the degradation of brain dopamine. Deprenyl is thought to be useful in certain patients in improving the response to levodopa, the drug of first choice in treatment of Parkinson's Disease.

Cysteamine

Nephropathic Cystinosis is an inherited disorder of amino acid metabolism in which an enzyme defect affects amino acid transport in the renal tubule. Interstitial nephritis develops leading to progressive and perhaps fatal renal failure. There has previously been little hope and no promising therapeutic entities effective for this condition and patients must eventually undergo renal dialysis or kidney transplant. Recent studies with the drug cysteamine, however, have shown encouraging promise of its efficacy in patients who had taken the drug for 16 months. In thses patients there appears to be a reduction in the rate of renal deterioration, as well as improvement in the growth rate of treated children. The Office of Orphan Products Development has monitored the progress of the ongoing studies and facilitated the availability of drug samples.

Indium III Oxine

The use of the radioisotope Indium III as a cell labeling drug began in the early 1970's. The substance has offered promise as a highly useful labeling agent for white blood cells and platelets for non-invasive scanning procedures to detect abscesses, internal bleeding, emboli, and aneurysms. The Office Of Orphan Product Development has reviewed the available data, determined with NCDB the information necessary for NDA filing, and obtained sponsors who have stated their willingness to proceed with an NDA.

Pentamadine

Pneumocytis carinii, a protozoan, has been increasingly recognized as a cause of pneumonia in patients who have immunologic deficiencies or who are undergoing immunosuppressive treatment. Untreated infections in patients with acquired immune deficiency syndrome (AIDs) usually progress to death. The treatment of choice for AIDs patients is trimethoprim-sulfamethoxazole. However, there is no substitute for pentamadine isethionate, used as the second line drug in patients who develop adverse reactions, or fail to respond to the other drug. During 1982 a near epidemic of pneumocytis carinii pneumonia occurred. The Center for Disease Control, which is distributing the drug under an IND, was in danger of running short of the product, which is made by a foreign firm. OPD obtained and consulted with a U.S. generic firm which has agreed to provide the drug and ensure its availability to CDC for U.S. distribution. In addition, the firm will submit an NDA.

LMW Hydroxyethyl Starch (LMW-HES)

This product is a low molecular weight synthetic colloid which has been reported to be very useful to harvest white blood cells for certain patients with inadequacies. It is similar to the manufacturer's marketed high molecular weight HESPAN which was approved primarily as a volume expander in treatment of hypovolemic shock and secondarily for use in leukapharesis. It is the only approved product for the latter indication. The investigational LMW-HES was demonstrated by an investigator to be advantageous in having shorter action and causing less volume expansion than HESPAN, while being equally effective. A joint meeting was held with the Office of Orphan Products Development, the Office of Biologics, and the firm. The firm agreed to expand the on-going clinical trial and support an application for marketing of LMW-HES as a sedimenting agent for leukapharesis.

Sponsors were also identified for the following products for conditions described elsewhere in this report.

trien for Wilson's disease
NP-59 for Adrenal Cortical Imaging
Pimozide for Tourette's syndrome
L-5 Hydroxytryptophan for Postanoxic myoclonus
Pentamadine for P. Carinii pneumonia
Carnitine for primary carnitine deficiency

IND's FOR TREATMENT PURPOSES

Frequently patients contract serious diseases or disorders for which no approved drug, device or other product is currently available for treatment or the available treatment is not always effective or tolerated. When a new entity is discovered which has demonstrated promising results in the treatment of these conditions, the entity may not be available to the physician and the patient in need. In these cases, the product may have been formulated in a clinical laboratory; available in a foreign country; or may have been formulated and used by a clinician in some remote location.

FDA has established a rationale for granting an "IND for Treatment" status where there is no equivalent therapeutic alternative or the new investigational drug offers significant advantages to available therapy. Under this program, the sponsor holding the IND can expand it to allow dissemination of the product to the patient in need. Such distribution is also recognized under the Orphan Drug Act, approved by Congress and the President of the United States in January 1983. The following are products granted IND for Treatment Status during 1982.

L-5 hydroxytryptophan (L-5-HTP)

Myoclonus is a movement disorder characterized by jerky, irregular muscle contractions in any part of the body. This symptom may be associated with a wide variety of brain lesions. The plight of individuals so afflicted received nationwide attention during 1982 via two "Quincy" program segments aired on NBC television. L-5-HTP, a precursor of serotonin, has demonstrated promise of effectiveness in reducing the severity of symptoms associated with pestenoxic myoclonus.

Bolar Pharmaceuticals has agreed to develop an NDA for the use of L-5-HTP in the treatment of postanoxic myoclonus. In the interim pending the submission and approval of an NDA, Bolar has agreed to make L-5-HTP available under an IND for Treatment status. The Office of Orphan Products Development has met with Bolar to discuss the proposed submission of an NDA and has maintained an open line of communication with the firm concerning the forthcoming submission of the IND for treatment purposes.

L-Carnitine

Carnitine is a water soluble amine nutrient present mainly in beef products and is also produced in the human liver. Carnitine has a vital function in oxidation of fatty acids. Primary carnitine deficiency can lead to muscle lipid disorders or deficiency of catalytic enzymes and progressive weakness and atrophy of muscle fibers. The primary carnitine deficiency disorder is extremely rare, i.e., 5 to 20 new cases per year. Studies conducted demonstrate a strong rationale for the use of carnitine in this deficiency. However, safety and efficacy results are incomplete. Thus, FDA supports the conduct of a well-controlled clinical trial. The Office of Orphan Products Development reviewed available data and met in conjunction with NCDB to discuss this project with American-McGaw, who has agreed to sponsor a treatment IND.

Monooctanoin

Each year approximately 500,000 persons undergo surgery to remove the gallbladder because of gallstone formation in the gallbladder or bile duct. It is estimated that in 2 to 6 percent of such cases, gallstones will be overlooked and require further surgery for removal. Sodium cholate and heparin have been used in attempts to dissolve stones through infusion into the common duct. However, adverse reactions or minimal to no success have been demonstrated with these agents. In vivo studies have shown that monooctanoin perfussion into the common bile duct can benefit 65 to 80 percent of patients with stones that are predominantly cholesterol, by dissolving stones entirely or decreasing stone size to allow extraction by noninvasive methods.

On December 10, 1982 the Office of Orphan Products Development published a Federal Register notice inviting NDA sponsorship for this compound. OPD has researched available material and discussed the marketing of the product with Stokely-Van Camp, who holds a patent for the use of it in the dissolution of cholesterol gallstones. Since it will be necessary for a sponsor to conduct some limited studies, the response is not expected to be as rapid as it has been for previous compounds, but four potential sponsors have expressed interest in their meetings with Stokely-Van Camp. OPD obtained the cooperation of investigators who have used monooctanoin to make their respective data available for use in support of an NDA.

PRODUCTS FOR WHICH ACTION HAS BEEN TAKEN TO LOCATE SPONSORS

The OPD's surveillance network for identifying promising products for diagnosis or treatment of orphan diseases is continually expanding. This effort to contact clinicians, disease-oriented associations, researchers, and the public has resulted in the identification of products for which ample evidence of safety and efficacy exists or which the evidence is suggestive. There are no U.S. manufacturers currently formulating these products.

FDA must actively seek prospective sponsors who have the interest and resources to complete any studies necessary for these products, and who will be capable of manufacturing a quality product which meets Good Manufacturing Practice regulations.

FDA has made efforts to locate a sponsor/manufacturer through publication of notices in the Federal Register; contact with industry officials such as the Pharmaceutical Manufacturers Association and the Generic Pharmaceutical Association; and cooperation with the PHS Orphan Products Board, for the following products.

Guanethidine I.V.

Causalgia is a rare but distressing complication of injury to large peripheral nerves. The syndrome is characterized by severe burning, superfical pain, deep aching pain and sympathetic overactivity in the affected part. Successful treatment of this condition by administering guanethidine intravenously for sympathetic block of the limbs has been reported. Guanethidine binds to the sympathetic nervous tissue. Its pain blocking effect can last from days to weeks in a limb which is properly treated by temporarily applying tourniquets to cut off circulation of the drug to unaffected areas of the body. The Office of Orphan Product Development completed review of data with requirements for NDA development clarified. NCDB was referred to for comment. A sponsor was contacted by OPD and has agreed to meet to discuss the project.

Iridium 191m

Radioisotopes are used in angiography for visualizing veins, chambers of the heart, and certain organs by injection and reading with radioisotope scanners and camera. First time radionuclide angiography procedures commonly take as little as 20-30 seconds after injection to complete. However, the isotope Tc99m04 in current use, has a half-life of 6 hours. Consequently, the patient is exposed to excessive radiation and the Tc99m04 remains in circulation, complicating subsequent angiography. Iridium 191m has a half-life of 4.9 seconds and emits a 65 and a 199 kev photons which makes it ideally suited for reading by present gamma simulation cameras.Iridium has been used experimentally at Harvard Childrens Hospital with promising success and no evidence of adverse reactions. The Office of Orphan Products Development identified and reviewed available data, and developed a proposal for presentation to the PMA Commission on Drugs for Rare Diseases. The purpose of the presentation was to request the Commission to search for a sponsor.

PRODUCTS WHICH ARE CURRENTLY SUBJECT TO FDA RESEARCH

The following are those products which are currently subject to FDA research.

Trien

Wilson's disease is a rare inherited disorder of copper metabolism that affects approximately 1,000 patients in the U.S. The disease is characterized by progressive accumulation of copper in various body tissues, primarily the liver, brain and iris, resulting in varied symptoms involving the nervous system and the liver.

Chelation therapy to rid the body of excess copper has been conducted since the early 1950s using penicillamine as an effective drug. Approximately 10 percent of the patients afflicted with Wilson's disease develop intolerance to penicillamine within a few weeks to 13 years of beginning therapy. A new oral chelating agent, trien has been reported as a successful alternative in providing life-saving treatment for these patients.who develop intolerance to penicillamine.

In September 1982, FDA published a notice in the Federal Register inviting sponsors to submit a new drug application. Sufficient data exists in the published literature research findings which demonstrates the effectiveness of trien as an alternative treatment for those patients afflicted with Wilson's disease. Merck, Sharp and Dohme responded to the Federal Register Notice, agreeing to submit an NDA. FDA's National Center for Toxicological Research has undertaken the toxicology and reproduction studies necessary to further support the safety of trien.

Cytomegalovirus Vaccine (CMV)

CMV is one of five human herpes viruses. With near epidemic occurence of herpes infections in the U.S. and abroad, much interest has been generated to develop an effective vaccine. Currently a live virus vaccine is being tested at Childrens Hospital of Philadelphia on two groups of subjects, kidney transplant patients and nurses of childbearing age. Kidney patients are a critical subgroup at risk since 90% of kidney transplant patients become infected with CMV and have a 10% mortality rate.

FDA's Office of Biologics, a leading laboratory in the study of herpes virus, is agressively attempting to profile the biology and immunology of CMV infections. Research efforts to date have disclosed several previously unknown immune responses to CMV and have determined the components of cellular immunity which mediate recovery from infection. Experimental models of latent infection have been developed, molecular biology studied, and important antigens of the virus identified.

Pertussis Vaccine

Pertussis vaccine is extensively used for the routine immunization of children for the control of whooping cough. The currently licensed whole cell vaccine has been associated with adverse reactions in a small segment of children immunized. The reactions range from fever to severe neurological impairment in rare circumstances. The Japanese have produced an acellular vaccine for pertussis which is claimed to offer equal efficacy with less side effects than the currently licensed U.S. vaccine. U.S. licensed manufacturers are reluctant to invest in the necessary research to develop a "second generation" vaccine due to the high costs of research and development, the low economic return, and previous problems with liability for adverse reactions.

In 1982 FDA began research on pertussis which may establish the direction for developing a new acellular vaccine. Any vaccine technology developed will be passed on to industry for use in improving vaccine production. While vaccine trials are in progress, basic research is being conducted on the immunochemistry of Bordelella pertussis and the host parasite to understand their interactions and the role of surface proteins in vaccine immunogenicity.

Therapeutic Plasma Components

Plasma is the fluid phase of blood which contains components essential to blood being maintained fluid within the circulatory vessels as well as those related to clotting and preventing excessive blood loss upon injury. The delicate interplay of the plasma protein system, when integrated with those of the platelets and vessel wall, results in a perfectly modulated physiologic response. Certain of these components, albumin, antihemophilic factor, and immune globulins, have been commercially available for many years. The development of others of the plasma components, suitable for new, but limited application in blood therapy, would provide therapeutic agents for selected patient populations. Two products are classified as orphan drugs.

Antithrombin III

A potent inhibitor of coagulation, useful in the treatment of congenital deficiency associated with thrombosis and/or death, or acquired deficiency, as in obstetrical accidents, sepsis, burns, massive trauma.

a2-Plasmin Inhibitor

A potent, specific inhibitor of plasmin and primary modulator of fibrinolysis, useful in the treatment of Myasato's disease, a deficiency characterized by a severe hemorrhagic complication not unlike classical hemophilia.

Further efforts to refine the technology and production of such factors would provide needed biological products for individuals with rare but sometimes catastrophic diseases.

Research efforts on antithrombin III and a2-Plasmin Inhibitor have greatly expanded during the fiscal year 1982. FDA is currently conducting research on congenital deficiency associated with thrombosis and also fibrinolysis. The Office of Biologics is also currently reviewing INDs associated with antithrombin III and a2-Plasmin Inhibitor and consulting with domestic and foreign manufacturers. A workshop is being scheduled by the Office of Biologics to discuss and explore new technologies and production methods of these plasma components.

Varicella Zoster Virus

A live attenuated Varicella zoster virus, the OKA strain, has been developed in Japan. Studies of this vaccine in the United States are currently being performed and the Merck Institute for Therapeutic Research. There is evidence that it will probably be of use in preventing chicken pox in children with leukemia. Merck is also attempting to develop the vaccine for use in healthy children to prevent chicken pox.

Research efforts on varicella at FDA's Office of Biologics have been greatly expanded during fiscal year 1982. It is conducting research on the immunology of varicella infections. Collaborative studies have been performed to evaluate the persistance of the immune response after administration of the live vaccine. A meeting or workshop is planned for the middle of FY 1983 to be co-sponsored with NIAID and NCI.

PROACTIVE REVIEWS ON PROMISING ORPHAN PRODUCTS

Traditionally, the most prevalent activities in New Product Evaluation have involved review of sponsors' protocol submissions; and data on pre-clinical and clinical studies to evaluate whether the design and execution of the studies are accurately presented in the submission and whether they support the sponsors' claims of safety and efficacy for the labeled indications. The Orphan Products Development Program has established an entirely new mandate and direction for the Agency in the review of data on promising new entities. Instead of a reactive response to critique and review of sponsor assembled protocols, arrays of data, and presentation of findings, a proactive response is now required.

FDA staff receives numerous suggestions from a variety of sources on promising new entities for orphan conditions. Each of these suggestions has the potential for leading to a breakthrough in treatment of a rare or common disorder. Each lead must be proactively followed up. Extensive literature searches, contact with clinicians who are experts in the appropriate medical discipline, dialogue with patients, and review of FDA files for related submissions or actions are just a few of the actions necessary to obtain data on a lead. The Agency has performed such activities on a case by case basis prior to the formal Orphan Products Program. However, with the Congressional mandate to establish a formal program, resource intensive activities now require exhaustive research on the safety and efficacy of each potential orphan product. In addition to the products previously identified in this report, the following are products for which proactive orphan product review or evaluation have been conducted during 1982.

6-Aminonicotinamide (6-An)

Psoriasis manifests deep in skin lesions with epidermal hyperplasia and high rate of epidermal turnover. It is estimated that more than one million people have psoriasis and in 11 percent, the disease is of a severe nature. 6-An in one well controlled study, appears effective in achieving substantial improvement or complete clearing of plaques in 80 percent of patients. The safety of the new drug is not yet established. The Office of Orphan Products Development reviewed available data and proposed measures for additional study which are under consideration by NCDB.

Phenytoin

Phenytoin has been used for the treatment of epilepsy since 1938. Animal studies indicated phenytoin was capable of suppressing electroshock convulsions. Phenytoin experts antiepileptic activity without causing general depression of the central nervous system. It can cause a complete remission of certain seizure patterns but does not completely eliminate the sensory aura or other prodromal signs of the condition.

Phenytoin has a stabilizing effect on all neuronal membranes, including those of peripheral nerves. It has also been reported to effect changes in sodium, calcium and potassium ion metabolism. For these reasons, phenytoin has been postulated to be useful in the treatment of a number of diverse conditions such as cardiac arrhythmias, myotonia, trigeminal neuralgia, migraine headaches, and thought, mind, and behavior disorders as well as many others. A literature review was completed for these numerous conditions. Summary of some individual reviews follow.

Trigeminal Neuralgia (TN)

The pain of trigeminal neuralgia is described as lancinating, knifeish, stabbing or electric-shock-like in nature. It usually lasts only seconds, and rarely more than one minute. A chronic burning facial pain may gradually develop. The disease is characterized by unexpected and often prolonged remissions. Evidence in literature on case reports suggest effectiveness in the treatment of TN, but the evidence is not substantial because the studies were uncontrolled.

Diabetic Neuropathy

Peripheral neuropathy is a common complication of diabetes mellitus. Onset of neuropathy has no definite correlation with severity, duration and control of diabetes. Rigid anti-diabetic therapy will not prevent neuropathy and rarely seems to change the rate of spontaneous recovery. Pain and paresthesias of the lower extremities are manifestations of diabetic neuropathy. The review of the available data for the use of phenytoin in diabetic neuropathy is ongoing. A final decision has not been made on this indication.

Myotonia Disorders and Continuous Muscle Fiber Activity Syndrome

Myotonia is a disorder characterized by a delayed relaxation of a muscle after voluntary or mechanically induced contractions. Electromyography reveals that the delayed relaxation is actually an after-contraction accompanied by profuse discharge of muscle action potentials. Myotonia may be found in several hereditary muscle diseases. It appears only rarely as an acquired symptom. Although the other manifestations of these muscle disorders vary, the characteristics of the myotonia are the same in all of them, varying only in the intensity and distribution.

The various myotonias and myotonias of myotonic muscular dystrophy are treated with phenytoin. On October 28, 1982 a proposal was taken before the Peripheral and Central Nervous System Advisory Committee for consideration. This proposal was based upon FDA review of literature. The committee accepted the literature review as one of the two required controlled studies prior to approval of a new indication. Parke-Davis, the major manufacturer, agreed at the request of OPD to perform the new studies.

Continuous Muscle Fiber Activity Syndrome is a very rare muscle disorder characterized by continuous muscle contractions and stiffness. Phenytoin is used to treat most cases. FDA's Advisory Committee requested a new controlled study to support the available published literature. Parke-Davis will perform it.

Cardiac Arrhythmias

Injectable phenytoin has been used to treat cardiac arrhythmias for years, although it is not labeled for this use. The manufacturer was asked to present data to FDA's Cardiovascular and Renal Drugs Advisory Committee in support of labeling changes. The Committee concluded that the drug has anti-arrhythmic activity and is now in the process of making labeling recommendations to FDA.

Recessive dystrophic epidermolysis bullosa

This is a rare skin disorder of a serious nature which can be fatal. There is no approved therapy. A published controlled study demonstrated that phenytoin is useful in this disease. At the request of OPD, the American Academy of Dermatology has agreed to perform a second controlled trial.

Sulfur Hexafluoride Gas (SF)

The objective of retinal detachment surgery is to repair breaks or tears in the retina with diathermy or cryosurgery. The tear is closed so that subretinal fluid may be absorbed and sight may be regained. Gas bubbles of sterile air have been used for some time as a tamponade to close retinal tears. However, sterile air presents a short period (4 days) of pressure prior to absorption which may be inadequate to allow reattachment of the retina. When a small amount, less than 20 percent of Sulfur Hexafluoride Gas (SF) is added to the injected air, the combined mixture expands 2.5 times its original size and maintains pressure on the retina for twice the time of sterile air alone. When problems of proper procedure and technique are resolved, this gas holds promise of improved effectiveness for retinal detachment surgery, although controlled studies are not available that would substantiate the potential safety and effectiveness of the device. The Office of Orphan Products Development has reviewed available data, contacted a number of clinical investigators, and formulated a plan to aid the development of this device.

Colchicine

Familial Mediteranean Fever is an inherited disease affecting people who originated from the south and east coasts of the Mediteranean Sea. The syndrome consists of irregular episodes of fever, abdominal pain, and vomiting caused by painful serositis. These attacks occur and subside spontaneously. Colchicine administered to FMF patients in three double blind studies demonstrated therapuetic benefit in reducing attacks of FMF. Current labeling for colchicine includes only the indication for treatment of gout. Completed studies support the addition of FMF as an indication to colchicine labeling.

The Office of Orphan Products Development identified and analyzed the literature related to this important additional use of an old drug.

Aprotinin -Trasylol injection

Aprotinin is a protease enzyme inhibitor marketed in Europe for use in pancreatitis. Several U.S. investigators reported usefulness of the drug in the management of a small number of insulin-resistant diabetic patients. The drug prevents degradation of insulin at the injection site. The Office of Orphan Products Development's recent contact with the major U.S. investigator revealed that in contrast to the initial promising reports of the drugs' benefit, subsequent experience has shown that only approximately 25 percent of patients respond. Also, the condition of the life-threatening insulin resistance subsides after approximately 2 years, and superior alternative methods of treatment have now been developed. The investigator expressed the opinion that further development of aprotinin for marketing is not warranted at this time, although he was contacted independently by two interested U.S. firms.

Fusidic Acid (Sodium fusidate)

Fusidic acid is a substance which has been clinically used in foreign countries for over twenty years in the treatment of staphylococcal infections resistant to traditional antibiotic therapy. In laboratory studies, over 100 multi-resistant strains of staph aureus have demonstrated suceptability to fusidic acid. Absence of scientifically designed clinical studies and sponsorship in the U.S. have, in the past, prevented commercial U.S. introduction of this promising product for treatment of skin, soft tissue, and bone and joint infections. In 1982, FDA reviewed previously held INDs and NDAs to determine if adequate data on safety and efficacy of fusidic acid is available from existing sources. OPD and NCDB met with the foreign manufacturer to discuss the studies necessary for marketing approval in the U.S.

DRUG APPROVAL PROCESS

Dr. HAYES. Turning to the drug approval process, one of our most important objectives is further improvement of the process by which the agency reviews the safety and efficacy of new drugs. This initiative began in 1979, when our Bureau of Drugs began an internal review of its policies and procedures with the goal of streamlining the entire process. Subsequently, in 1981, several Members of Congress cosponsored a Congressional Commission on the Federal Drug Approval Process to recommend ways to expedite the process. Also in 1981, I appointed a task force to recommend needed policy changes, and in 1982 the Secretary appointed a departmental group specifically to review the regulations on experimental drugs as they affect drug research, development, and approval. The proposed revisions to the new drug application regulations that resulted from these studies were published in the Federal Register last October, and our goal is to have the reforms take effect this spring.

This improvement in our new drug approval process is based on two important changes. The first involves improvements in efficiency that can be made without compromising the quality of the final decision about a drug. This will be accomplished by such innovations as acceptance of tabulated data from case reports and broadening reliance on foreign data, as well as through a new appeals process for promptly resolving scientific disputes between FDA and drug companies. The second focuses on strengthening some aspects of drug regulation, while eliminating other requirements that do not contribute substantially to assuring the safety, efficacy, and quality of products. The next phase of these improvements will focus on the early stages of research and the use of investigational drugs. We must balance our commitment to bring new therapies to market just as quickly as possible with our determination to maintain the high scientific standards of safety and efficacy required by law. In 1982, FDA approved 28 totally new drugs, more than in any year since the 1962 amendments to the Food, Drug and Cosmetic Act.

To continue our efforts in this area, FDA intends in 1984 to reallocate 35 staff-years from other activities to expand internal research on human drugs, in order to create a nucleus of scientists who will help FDA bridge the complex regulatory gap between drug research and development and the new drug approval process. This expanded scientific capability will enhance the quality and timeliness of FDA's drug review decisions.

TYLENOL EMERGENCY

Next, I would like to address the Tylenol emergency of this year, and our request for a 1983 supplemental appropriation to cover the extraordinary costs associated with such product emergencies. The Tylenol emergency demanded an immediate response, and I am extremely proud of the FDA's handling of this crisis. During the month of October of last calendar year, our field staff collected and conducted laboratory examinations of over 1½ million potentially contaminated capsules. I thought, Mr. Chairman, you might be interested in the screening method of looking for cyanide in capsules that we have developed. By using low level radiograms, we were able to screen large numbers of bottles of potentially contaminated capsules, thereby identifying those needing further chemical analysis.

[The illustration of which follows:]

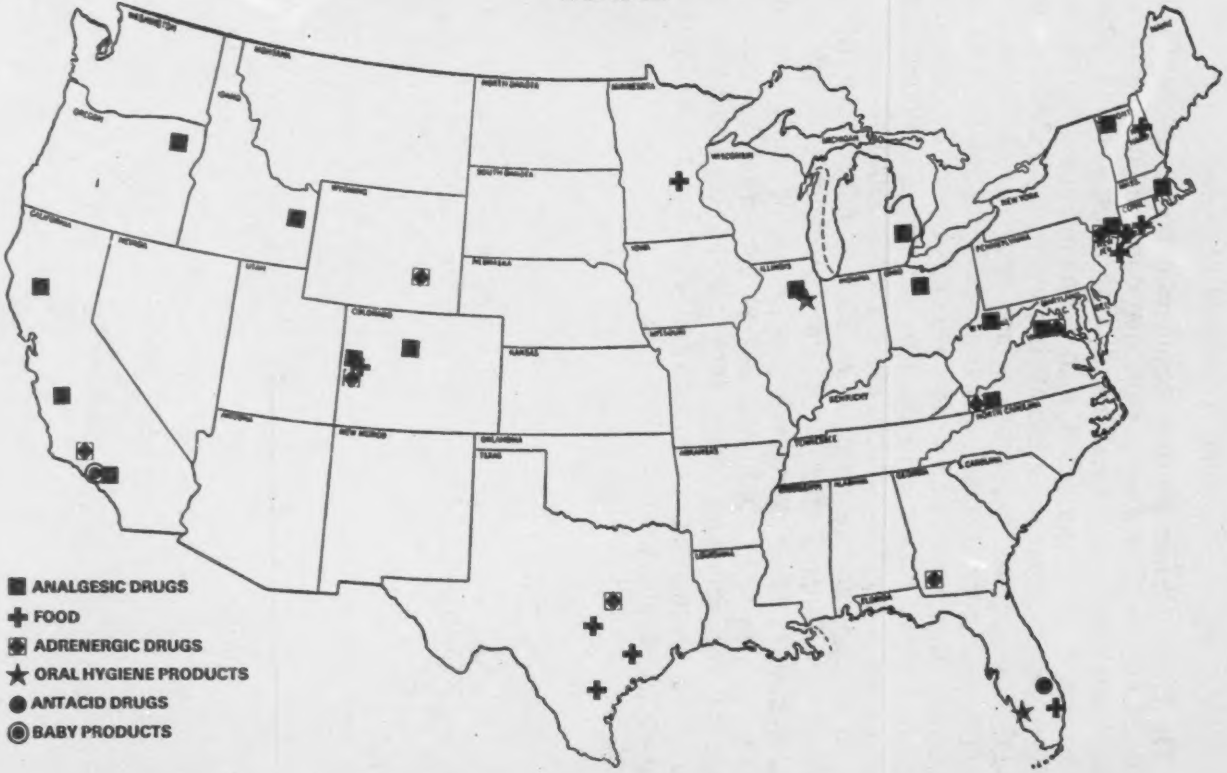
COST OF CHEMICAL ANALYSIS

Dr. HAYES. While the new regulations on tamper-resistant packaging should help to alleviate this particular concern, there is no substitute for the knowledge and experience of our inspectors and laboratory staff who are on the spot when such problems arise. Responding to such emergencies causes a substantial burden on FDA's resources, since large, unbudgeted expenditures are necessary to cover the costs of employee overtime, travel, and supplies, including product samples. For example, the extraordinary costs associated with the canned salmon and infant formula recalls in 1982 came to nearly $2 million. The extraordinary costs of the Tylenol incident exceeded $500,000.

In addition to the response to the immediate crisis, we received in the 3 or 4 months after the Tylenol incidents over 600 complaints of tampering in other areas with food and other sorts of drugs. Seventy-two of these were confirmed as real tampering instances. As you can see by the following map, they related to a number of different products throughout the country, all of which had to be tracked down, investigated, and then resolved.

[The map follows:]

PRODUCT TAMPERING
1982


■ ANALGESIC DRUGS
✚ FOOD
▣ ADRENERGIC DRUGS
★ ORAL HYGIENE PRODUCTS
● ANTACID DRUGS
◎ BABY PRODUCTS

CONTINGENCY FUND

Dr. HAYES. To assure that resources are always available to enable FDA to respond to such major emergencies, we are seeking a supplemental appropriation in 1983 to establish a contingency fund to provide for future emergency events of this type which significantly increase the agency's direct costs. It is our intention that this fund be used only to recoup the extraordinary costs associated with major emergencies. It is envisioned as a no-year appropriation that could be replenished as needed in future years. The establishment of this fund will assure that FDA can respond to such emergency situations, regardless of the agency's current budget situation or the time of the fiscal year.

TAMPER-RESISTANT PACKAGING

I should also mention at this point another concern related to the Tylenol incident, and that is that the various types of tamper-resistant packaging do not interfere with the ability of the elderly or disabled to open the many over-the-counter drugs which are so important to their health needs. We have had meetings with consumer groups, as well as with the Consumer Product Safety Commission, which has the responsibility for child-resistant packaging. We are currently working with CPSC to develop an experimental study to see if tamper-resistant packaging presents barriers to various age groups. This study will be conducted in the near future. Just as CPSC is seeking to revise its requirements to make child-resistant packages more accessible to adults without defeating their purpose of preventing child poisonings, we at FDA will do whatever we can to assure that the need to prevent tamperings does not hinder people from using the drugs they need.

As I am sure you are aware, Mr. Chairman, these sorts of packaging are already appearing in the marketplace. The regulations are in place, so there is some degree of uniformity and criteria in terms of performance standards. What we need now is to be sure that this packaging is made available and that it achieves its purpose but does not pose a hindrance to people getting at their medications.

BUDGET REQUEST FOR 1984

The budget estimates for 1984 will continue the agency's current level of staffing. We are requesting two specific increases in 1984 that are needed, we believe, to provide proper support for our personnel.

The budget includes a request for an increase of $5.5 million for the purchase of scientific equipment to enable us to maintain an adequate science base. Emerging technologies have yielded recent products such as synthetic human insulin made through the use of recombinant DNA, approved by FDA last year; implantation of the first permanent artificial heart; and a process called nuclear magnetic resonance which revolutionizes the way physicians can look inside the human body. In addition, medical lasers are being used more and more to replace the physician's scalpel. From their original use in eye repair, lasers are now used to excise brain tumors and skin cancer and to seal bleeding ulcers. FDA must be able to keep abreast of these and similar discoveries which are so significant in areas within our jurisdiction. One of the most critical factors in keeping abreast of technology is the base of equipment our scientists must have. Properly timed scientific equipment procurements are essential to all of FDA's laboratory programs.

The other increase in our 1984 budget request is for $3.5 million for essential repairs and improvements to FDA's various headquarters and field laboratories, to allow us to maintain our current facilities and keep them up-to-date. I am happy to report that our plans for new headquarters laboratories at Beltsville, Md., are nearing their first fruition. The design of the first module of the complex has been completed, and we expect construction to begin in the next few months, thanks in large part to the committee's past support.

ROPER SURVEY

Finally, I would like to share with you the results of a recently conducted Roper survey, which indicate that not only is FDA well recognized, but remains well respected. With respect to the Tylenol situation, the Roper survey indicated that 81 percent of the respondents believed FDA met its responsibilities well. Also, 80 percent of those polled claimed to have a good idea of FDA's mission, a much higher percentage than for other regulatory agencies. We will strive to continue the level of agency performance that has earned this respect, and our budget request for 1984, we believe, will allow us to do that.

Mr. Chairman, this concludes my prepared remarks. My colleagues and I will be pleased to respond to any questions you or members of the subcommittee may have.

PRODUCT TAMPERING

Senator COCHRAN. Thank you very much, Dr. Hayes. We appreciate your presentation to the committee.

I would like to ask a question in connection with the work you did in the Tylenol case and related problems with the tampering of drugs and other substances. Will your request for a contingency fund help prevent your having future budgetary problems when an emergency arises and FDA must act quickly to mobilize a recall or an evaluation of over-the-counter substances?

Dr. HAYES. I believe it will, Mr. Chairman. We have established criteria for the use of the fund. It is not to be used indiscriminately for any field activities. There has to be some magnitude of emergency in proportion to the public health dimensions. But there is no question that such emergencies as Tylenol, or the salmon recall, which was not an emergency in the sense that somebody was sick, the potential was certainly there in a large number of products. Those are very expensive, not just in terms of resources, but in taking people from their usual jobs to address these issues. We are talking about tens of thousands of extra man-hours and also expenses that may be difficult to absorb, depending upon where we are in the fiscal year. Often, samples or supplies or equipment for the laborabory have to be purchased. There may be special travel involved in collecting the samples and coordinating the results with other States and Federal officials. The contingency fund will allow us to be in a position where we don't have to worry about that when we are addressing one of these emergencies.

Senator COCHRAN. This is a request for a supplemental appropriation of $5 million. Would this be just as well included in the regular appropriations bill for the next fiscal year? Is there an emergency that you foresee occurring between now and October?

Dr. HAYES. No, but then, I could have said that last year when we had the Tylenol incident with 2 days left in the fiscal year. I don't like to predict those things, because I just might be wrong. It certainly could be included in the regular appropriation, but I think we would feel more comfortable if that money were available for the remainder of this fiscal year.

Senator COCHRAN. I have some other questions, but I would first like to recognize my distinguished colleague, Senator Stennis. We appreciate your being here, Senator. Do you have any comments or questions?

Senator STENNIS. Thank you very much. I appreciate being here.

May I commend our friends for their action in this Tylenol matter. I saw the day-to-day developments, and I think you did some mighty good work. I am interested in this subject, but I will pass up asking anything of Dr. Hayes just now and ask the chairman to excuse me while I temporarily attend another meeting. I do plan to come back.

Senator COCHRAN. Thank you.

Dr. HAYES. Thank you, Senator.

Senator COCHRAN. How did you manage to cope with the strain on your budget in dealing with the Tylenol case without a contingency fund this past year?

Dr. HAYES. Well, what we did, quite frankly, for those first couple of days, was that a number of our people in the field used their own funds to purchase the supplies or pay for travel and the like. They were later reimbursed. Then the new fiscal year began, and what we did to pay for the extraordinary out-of-pocket cost—some $530,000 for Tylenol and related incidents—was take it out of general operating moneys, which now we don't have for other things that we had planned to do this year. So, the fact that it occurred early in the fiscal year helped in terms of the immediacy of cash flow. It will hurt us in the things we would have done otherwise.

TAMPER RESISTANT PACKAGING

Senator COCHRAN. You mentioned that an experimental study is being developed to help assure that tamper resistant packaging doesn't interfere with the ability of the elderly and disabled to open drug containers. That is quite a challenge, making sure we have full protection with a container designed to prevent drug tampering, and making it easy for those who might be elderly, have a disability, or other impairment to use the same container. What do you think you will find from this study? Can this problem be solved?

Dr. HAYES. I think there is hope. I would like to ask Dr. Novitch to address that specifically, since he has been working with the various groups in setting up the design of the study, Mr. Chairman.

Dr. NOVITCH. Mr. Chairman, we have had very useful meetings with groups that represent the elderly consumers, and they have come up with some very good suggestions. I think you have to understand that when we put a regulation out in November, only a few weeks after the first tampering episode, our main concern was to protect the product, and we had to use existing technology. Since then, with the regulation now coming into effect, the packaging industry is making modifications, and we expect that with very small modifications the elderly and others will have much better access and clear directions. We think that the study will show that there is more clarity needed in identifying the tamper-proof feature, and we think that very minor modifications are needed in some of the packaging types that will allow access by everyone, including the elderly and the handicapped.

Senator COCHRAN. Thank you very much. I wish you well in dealing with that problem. I think it is very important that such changes are made as quickly as possible.

FREEDOM OF INFORMATION

I understand that there is a tremendous burden on your staff in trying to deal with the requests under the Freedom of Information Act. There have been, from time to time, some complaints by companies that information is made available to competitors through this process, and that problems arise as a result. Is there a need to amend the Freedom of Information Act or make some exception in connection with requests that are filed under that act with your agency, or is there any other way to deal with that problem?

Dr. HAYES. I think that there are a couple aspects, Mr. Chairman. First, with respect to responses to FOI requests, I think the law is clear as to what can go out. What has been proposed and is under discussion at this very time is whether there should be prior notification so companies know what business information concerning them is being released. Were there to be this change in the law, or through administrative directive, prior notification would greatly increase the number of people involved and the cost. It is hard to estimate, but it could be as high as 103 more staff-years and perhaps as much as $4 million. But it is difficult to predict.

At the current time, the FOI burden in the Food and Drug Administration, which is second only to the Department of Defense in the Federal Government, is running 34,000 requests a year and involves 130 staff-years, of which 10 have been appropriated. The other 120 we have taken from other places in the agency.

Senator COCHRAN. Why does FDA get so many requests?

Dr. HAYES. Well, I think there are a number of reasons. There are a number of areas in which we are involved that other companies or other interested parties and groups would like to know about.

Senator COCHRAN. It sounds to me like an abuse of the act, using the act for purely business reasons.

Dr. HAYES. Well, it is certainly an extension. I don't know what was in the mind of everyone who designed and voted for the act at the time it was put into place, but it certainly is an extension of merely giving information to an individual who wants to know what happened in a specific situation. As you mentioned, it is a sort of industrial espionage, if you will. There is no question that a lot of what goes out under Freedom of Information is for competitive use, but it is quite legal.

Whether the additional burden of prior notification, as far as FDA is concerned, will help to eliminate that or at least let people know what is going out, I think is a policy, indeed a philosophical, question. That it would cost us anywhere from 44 to 103 more people a year and $4 million, I think can be demonstrated, though it is very hard to know what the total ramification of prior notification would be. Would some people use it less or would their request take a different form? That is hard to predict. There is no question that a burden of 34,000 requests a year is a severe one.

Senator COCHRAN. How much does that really cost you? You mentioned the man-hours involved. What are the dollar figures, if you have them, that you have to utilize to respond to all of these Freedom of Information requests?

Dr. HAYES. In calendar year 1982, FDA's total cost was $4.7 million.

Senator COCHRAN. That is a rather shocking figure.

Dr. HAYES. For the Food and Drug Administration, it is a very large program, necessarily because of the interest in the areas with which we deal and the source of information that we have.

I should point out, my colleague has just reminded me, that for the implementation of Freedom of Information, we collect $185,000 in fees, but the $4.7 million we have to find.

Senator COCHRAN. What did you end up having to sacrifice in your activities this past year to do the work required by the Freedom of Information Act? What did you have to put on the back burner, or just not do, that we have appropriated funds for you to do?

Dr. HAYES. I think it is fair to say when we put forward an appropriation, we believe we can estimate, since the request level is about the same, what it is going to cost us. So we plan for these costs within our budget request, even though we don't recoup that in any way in terms of fees.

If one looks at other things the agency would do if we suddenly had that $4.7 million, then I think—and obviously, this is without a great deal of careful planning and preparation in responding to the question—there are a number of areas we would attempt to strengthen. Probably the most fundamental, because I think it is the most important in the coming years, is our science base—the recruitment, training, and education of our scientists, the specialization in certain areas, some of which I mentioned in my prepared testimony, in new technologies, in drug products, in radiation products that are coming along, and which we must regulate. We must have a science capability in order to regulate. I think putting money into our science base is probably where that priority would be.

FOI FEE SCHEDULE

Senator COCHRAN. Let me ask you this: You mentioned a fee schedule or a fee that you are able to charge for responding to a Freedom of Information request. Does this compensate to any degree for the $4.7 million?

Dr. HAYES. In 1982, we collected $185,000 in fees, but it goes to Treasury.

Senator COCHRAN. You received $185,000?

Dr. HAYES. We don't see that; that goes to Treasury.

Senator COCHRAN. So you don't get to use that money at all?

Dr. HAYES. That is correct.

Senator COCHRAN. I wonder, if we increased the fees, do you think the requests would be reduced in number?

Dr. HAYES. That has been discussed within the Department of Health and Human Services.

Senator COCHRAN. Is that something you could do?

Dr. HAYES. No; it is the Department's responsibility.

Senator COCHRAN. HHS would have to do that.

Dr. HAYES. It is hard to know, Mr. Chairman. The concern is that if the fees are too high, you will defeat at least one purpose of the act, in that an individual will no longer be able to afford to get the information, however much it costs. I think there is no question that you could raise the fees high enough that you would decrease demand. The question is, are you decreasing the demand in the right place.

Senator COCHRAN. Of all the requests you receive, what percentage would be from companies trying to find out what other companies are doing?

Dr. HAYES. About 82 percent. Those are not all directly from companies. There are a number of individuals and organizations in the business of collecting information for clients and the like, but it amounts to approximately 82 percent. We have a breakdown: 43 percent from industries, 28 percent from these FOI service companies, and 11 percent from lawyers. The total is 82 percent.

Senator COCHRAN. I guess these FOI service companies have become a big business in themselves.

Dr. HAYES. They have, sir, at least with respect to FDA.

Senator COCHRAN. Congress has sort of created a new works progress administration program. It is a jobs program. A lot of people work in that industry now.

Dr. HAYES. That is true, sir.

Senator COCHRAN. But it is costing the Government money. There is a lot of money each year that goes into the answering and handling of these requests.

Dr. HAYES. There is no question about that. If you take $4.7 million and multiply that by the 82 percent that goes to these organizations, then even with the recouping of $185,000—if that were all from the 82 percent, which it is not—then the Government obviously is not breaking even.

Senator COCHRAN. I have been following the story that the Washington Post has been carrying—maybe you have, too—about the international information-gathering service that started off with a big splash and then crashed. I think it is called the International Reporting Information System (IRIS). Maybe we have a lot of IRIS's working here within the United States which collect information, and make it available elsewhere. That would, indeed, be the subject of some interesting hearings. The Judiciary Committee has jurisdiction over the Freedom of Information Act. Perhaps, our Governmental Affairs Committee could look into that. I don't know if it has been looked into recently.

Dr. HAYES. I don't know of any recent hearings, at least none that have affected us, sir, not on this subject.

LABORATORY FACILITIES

Senator COCHRAN. We put some money in the jobs bill for the National Center for Toxicological Research in Arkansas. Your budget includes $3.5 million for repairs and improvements for various headquarters and field laboratories; $1 million is requested specifically for the National Center. Will that $1 million now be needed? I think the number in our jobs bill was $875,000.

Dr. HAYES. They are really separate, Mr. Chairman. The $1 million to which you refer is for renovations and repairs and modernization at the NCTR facility. Part of that is, quite frankly, to fix a roof that is badly leaking; part of it is for some special radiation shielding in the laboratory, and for some genetic work. That does not overlap with the other moneys to which you refer, which are for new facilities and for new or expanded programs. They are not the same thing.

Senator COCHRAN. You mentioned the laboratories at Beltsville, that they are coming along well, and that construction will begin in a few months.

Dr. HAYES. We hope to break ground on module one this June or July. The architectural and engineering work for module two, we believe, will be completed toward the end of this calendar year, or perhaps in January or February of next calendar year. We have not yet secured construction money for module two. That would be chiefly, as you recall, for laboratory facilities for veterinary medicine and, most especially, for large animal research, to which that area in Beltsville is well-suited and which would be difficult in downtown Washington.

CONSUMER EDUCATION

Senator COCHRAN. Do you spend much money out of your budget for the purpose of educating consumers as to the safety or effectiveness of generic drugs? Is that a part of your mission or responsibility?

Dr. HAYES. Well, I think it is. Indeed, we have a whole Office of Consumer Affairs here in Washington, and then we have some three dozen consumer affairs officers throughout our districts in the United States—some 23 districts in all. One of their responsibilities is to respond to questions or even to take the initiative in educational efforts on a variety of subjects. We have publications that assist in this, both in themselves and through reprints which can be used to aid in such educational activities here and in the field. One of the things we do is try to educate patients about the safety of drugs, including generic drugs, and how they should use them, using the facilities of health professionals, doctors and pharmacists, and the like. Last year, we spent some $3 million in toto just on consumer education.

ORANGE JUICE ADULTERATION

Senator COCHRAN. There are members of the subcommittee who are very interested in the problem of orange juice adulteration. It is my understanding that you have been meeting with representatives of the Florida Citrus Commission to discuss development of better detection methods to help deal with this problem. What is the status of that situation, and is there progress being made in dealing with the problem of orange juice adulteration?

Dr. HAYES. I think there is progress being made, Mr. Chairman. We have met with the Florida Citrus Commission. As you know, they offered to give us some money, and we are looking for some cooperative arrangement and some guidance on where that money might be spent that would address this problem, for it is a difficult one. Indeed, scientifically, it is a difficult problem, that is, to show that orange juice is adulterated so that one really has a case in which the evidence will stand the light of day. We are now working with the Florida Citrus Commission on ways we can develop methodologies that will answer that need. Indeed, this very week we have begun publicly soliciting companies that can come in and help us in this methods development, so that when we track down adulterated orange juice, we will have the technical and scientific expertise to not only determine whether it is adulterated, but to also prove it in a court of law. I think, therefore, that the cooperative work with the Florida Citrus Commission is going extremely well. We have focused on what the problem is. They have been most willing to work with us, and we are already seeking the necessary outside scientific help, so that methods development can go forward.

SODIUM LABELING

Senator COCHRAN. I remember that last year we had a good discussion on the proposed regulations dealing with sodium labeling and whether or not new legislation or regulations might be needed. Some proposals were published in the Federal Register last year, after which there was a comment period that attracted a good deal of attention. Where do we stand on this? What is your role in the sodium labeling regulatory exercise?

Dr. HAYES. First of all, at this point we do not believe that any legislation for mandatory sodium labeling or anything related to it is necessary. The regulations that you specifically refer to with respect to some aspects of sodium labeling, most especially its place in nutrition labeling, as well as definition of certain terms—low sodium, moderate sodium, salt-free or sodium-free, and the like—these regulations were published as proposals. We have received many comments, with varying views and data. The proposals are now in the final stages for publication as final rules. I can't tell you exactly what is in them, because I have not made a decision. I have not seen the detailed recommendation from the Bureau of Foods and General Counsel, but they will be published in the very near future.

We think that will be important, because it is an important area of the whole sodium initiative. We are happy to report to you, and a little more formally to the Congress in the next several months, that the whole sodium initiative over the last year and a half, we believe, has gone, and continues to go, very well. Not only has it gone well with respect to voluntary labeling of products with sodium, but with changes of recipes by food processors and the marketing of foods that are lower in sodium, not only as a special line but even in the regular lines, the vegetables and other foods that form a large part of the diet and obviously where the sodium content is important for the average person. We feel the initiatives of education and information both with and through the health professionals, and most especially with consumers, is going very well. There is no question, as recent surveys have shown, that there are very few things more important to consumers than the amount of sodium in their diet. That is one of the things most important to them when they look at a label, which is certainly a change from several years ago.

We are also very pleased with the initiatives that have been taken and implemented by many food establishments. Restaurants, especially fast-food chains where a lot of sodium can be consumed, are labeling their hamburgers and cheeseburgers and french fries and in many cases are providing lower sodium alternatives. That is, you can get french fries without a lot of salt on them. Then it is your decision, which I think it should be in any case, as to how much salt you want to put on your food. At least you have that choice, rather than it being made for you.

So, I think we are pleased, and this report being made now on the entire sodium area—the awareness, the recipes and provision of low-sodium foods, the appropriate and honest labeling, the educational campaigns, the interest of health professionals, physicians, nutritionists, and the like—all bode very well for what I think is a very important public health issue in this country and that it is being addressed. I don't think there is any need at this point for legislation to make it work. Indeed, I think it is working quite well.

CAFFEINE

Senator Cochran. What about a related issue, at least in terms of labeling, and that is caffeine. Right now, I am sitting here drinking some coffee. It occurs to me that we are seeing more and more substances that are labeled caffeine-free this and caffeine-free that. Not only decaffeinated coffee, but now cola drinks and soft drinks of all varieties are on the market. Is this something in which the FDA has been involved? I don't mean just in suggested labeling, although, maybe you have done some work in this area, but in doing some research and making information available enabling consumers to become more wary of consuming too much caffeine?

Dr. HAYES. Indeed, I think you put a finger on the fundamental question, and that is, what do we know about caffeine from a scientific and medical standpoint? There are some large gaps in our knowledge, and by our knowledge I mean the scientific, public health community in general. To that end, we and a number of other groups, both inside and outside of Government, are studying caffeine from a variety of standpoints. We have a number of studies going on both in our Bureau of Foods, as well as our facility in Arkansas at the National Center for Toxicological Research, looking at various aspects of caffeine. What does it do in terms of the development of the growing fetus? What does caffeine do in various amounts, in terms of exposure, if anything, in terms of the development of the newly born animal and newly born human being? Behavioral changes and learning changes, the question of developmental changes that are physical or skeletal that affect learning or behavior patterns is a rather new one for these sorts of chemicals. Therefore, there has to be a hard look at the methodology so that you can trust the results, address questions, and then come up with data that will mean something and allow you to act and to be assured that you needn't worry about a particular situation. So, it is a very large, but I think potentially very fruitful field, and there is a great deal of research going on with caffeine, not only so people can be warned if there are risks—and I am not prepared at this point to prejudge data I don't have—but also, and again I won't prejudge, to reassure people they needn't worry about certain amounts, certain exposures, in certain foods. It relates not only to caffeine, or any other substance, but to how much a person is exposed. Do young people eat or consume it greatly? Do the elderly? Do diabetics or people with arthritis or heart disease? So, the generalizations can lead to pitfalls, and one can scare people in the attempt to warn them about something they needn't be worried about.

The research has to be done to show what caffeine does, and who is exposed. What risk, if any, is there for groups at various exposure levels, and why, and what should they do about it? For whom is there no risk because of exposure, and who can be reassured they don't have to be worried about it?

Senator COCHRAN. I was just reading in the newspaper recently about a study stating that if you drink two or three cups of coffee with caffeine, that it can cause irregular heartbeats among some people. I nearly dropped my coffee as I read the article. There was also a suggestion, not to drink a second cup of coffee, as your heart might skip a few beats and you could die. Have you heard about that study?

Dr. HAYES. I have read it. I also was drinking coffee when I read it. It has been known to those of us in cardiology that drinking coffee—and it may not just be the caffeine—can cause an increase in the heart rate in some, and paradoxically, a decrease in others, or irregular heart rhythms. What I think is important to address is, does that have public, in this case personal, health impact, and if so, who are those that ought to be careful? There is no question—and again in cardiology that it is well established—that in those who are given to heart disease, and especially to irregularities in their heartbeat, there are a number of substances they ought to keep away from, because not only are they liable to irregularities, but because of the underlying heart disease, it could be serious or they could die.

I think it would be premature, at least from the evidence I have seen in the newspaper, or only from an abstract of the science I have read, to say nobody should have a second cup of coffee or they might drop dead from irregular heartbeat. I think that would be unjust to many of us who enjoy coffee. To say there is no risk to anyone, or to be able to identify what the risk is or in terms of how much or to whom or under what circumstances, I think is the real challenge.

SULFITING AGENTS

Senator Cochran. We have seen some published reports in medical and scientific journals about the potential danger to us of sulfiting agents throughout the food and drug supply. I think sodium bisulfite and sulfur dioxide have been identified in most of these reports. One report indicates that a large number of asthmatics are sensitive to the life-threatening hazards associated with these chemicals, and many of the attacks that have taken place are in restaurants and are associated with sulfite-treated vegetables and salads. The National Restaurant Association, we are told, has recommended to its members not to use these agents in their salads pending further FDA action. What is the status of the review or research work that is being done by FDA in this area?

Dr. Hayes. There are a couple of things going on, Mr. Chairman. One is that we are currently looking at the more recent literature to see what really is known, both for individuals and epidemiologically, in terms of who is at risk and from how much, so that we will have at least at our fingertips all the known information about the various sulfiting agents.

Second, we continue to work with the National Restaurant Association and a host of other groups who represent individuals or firms that use sulfiting agents so that, on the one hand, sulfiting agents will not be used where they need not be used—and that was the recommendation of the National Restaurant Association—or that people be put on alert that sulfiting agents are being used. Sulfites do have some very important uses, but if you are sensitive to them, you shouldn't eat some products, or ask for something that does not have sulfiting agents on it. There is an education dimension to this that, I think, is terribly important, as it is for anyone who is allergic or reacts unusually to a chemical substance such as a bee sting or the like. There are many individuals who are reactive or allergic, in the loose sense of the term, to various substances, whether it is insect stings, foods, or in the air they breathe, and I think it is important for people to know what they must be careful of.

The other side is to be sure to know where it is—that there is adequate labeling. I think as a generality that reduced use of agents that can in some cases cause problems when there are substitutes, or when it need not be used, is good public health.

Senator COCHRAN. Thank you very much for the information. We appreciate your cooperation with the subcommittee. We will carefully review the budget request and hope we can come up with decisions that meet the needs of the public and equip the agency to handle the responsibilities given it by law. Thank you very much.

Dr. HAYES. Thank you, Mr. Chairman.

Senator COCHRAN. We will take just a short, 2-minute break while this panel leaves. Our next panel will be the Commodity Futures Trading Commission. Those who will be presenting the request to the committee can come forward now.

SUBMITTED QUESTIONS

[The following questions were not asked at the hearing but were submitted to the Food and Drug Administration for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

CONTINGENCY FUND

QUESTION: It is my understanding you have a pending supplemental request of $5,000,000 to establish a Contingency Fund which would be used in situations such as the Tylenol case. Is this not something that could wait and be made part of our regular fiscal year 1984 appropriation bill? Why are you requesting a supplemental?

ANSWER: The requested Contingency Fund is intended to prevent the adverse impact the extraordinary direct costs of emergency situations can have on the Agency's operating budget. Without such a fund, we would, as we have in the past, be forced to defer certain purchases and make other adjustments to current operating allotments to absorb such costs, thereby not only reducing current program support and our ability to deploy our investigators in the field, but effectively limiting future capabilities. This impact could be particularly acute near the end of a fiscal year.

If an emergency recall of national scope occurred in August or September, when almost all of the Agency's current funds had been obligated, we would be hard pressed to find the money to pay the overtime and travel necessary to assure that the recall was prompt and complete. Since we have already incurred the expenses involved with Tylenol and other tampering incidents, and we cannot predict what might happen between now and September 30, we have requested the establishment of the Contingency Fund by Supplemental Appropriations so that it would be available to us in 1983.

QUESTION: FDA had several emergencies in 1982--recalls of infant formula and salmon; tylenol investigation; etc. Would you please itemize for the Committee each emergency, and the cost associated thereto. What part of the costs of an emergency would be paid from the Contingency Fund? $5 million probably wouldn't go far in a real emergency.

ANSWER: The Contingency Fund would be used only to pay the unusual direct costs of emergency situations, such as overtime, travel, supplies, and purchase of product samples when necessary. While the total costs of emergencies can be substantial, much of the cost is always the regular staff time devoted to the problem, which in effect has already been budgeted, although our time is diverted from other planned work.

For instance, the canned salmon recalls in 1982 cost about $10 million in total for us to conduct 300,000 audit checks to be sure that the 65 million cans of fish involved were off the market. Of this total, $1,337,000 was for our unusual out-of-pocket costs, about half of which was for overtime. The recalls of infant formula for lack of nutrients cost us about $2.5 million, of which $334,000 was direct additional cost of the type that would, in the future, be paid from the Contingency Fund.

Although the Tylenol problem was reported at the very end of fiscal 1982, the follow-up investigation and other tampering incidents have occurred in fiscal 1983. We have had at least 600 reports of tampering, with 72 confirmed as actual tampering of one sort or another.

The major extraordinary costs were incurred in relation to the Tylenol incident itself, which involved substantial overtime to check samples of Tylenol, and also the cost of purchasing samples themselves. For the tampering incidents, including Tylenol, in October and November of 1982, we used about 22,000 hours of overtime at a cost of $330,000. The purchase of samples cost us $140,000. The cost of travel for our inspectors, and other supplies and items such as shipping costs, came to about $60,000. Overall, then, we have incurred about $530,000 in direct extraordinary costs for these incidents in 1983.

We have requested that the Contingency Fund be established at $5 million so that it could pay for at least several of the types of emergency situations we have had in recent years. While no one can predict the future, we would expect that this amount would protect us in a bad year with two or more national emergencies, but at the same time we hope that this fund would last several years before we needed to seek additional budget authority.

QUESTION: Without an emergency or Contingency Fund in the past, how has FDA borne these costs?

ANSWER: In the past, we had no such fund which could be used for this purpose--that is, we had no choice but to absorb extraordinary costs from our operating expenses or consider seeking supplemental appropriations after the fiscal year was well under way. Due to budget reductions in recent years, we have very little flexibility left in utilizing our operating funds, and this problem became especially acute in 1982 when we had several urgent recalls.

For example, in 1978 only 59% of our budget went for direct payroll costs and 11% was for mandatory costs such as building rent, postage, and telecommunications. The remainder of the budget constituted 22% in other operating costs and 8% for research contracts.

In 1984, however, 67% of our budget will be spent for direct payroll costs, and 13% for rent, postage, etc. Consequently, only 18% of the budget is left for operating and support costs and 2% for research contracts. In other words, even though our staffing levels have been reduced significantly, the Agency's operating funds have been reduced even more heavily, and now FDA simply does not have the flexibility in its operating budget to absorb the direct costs of a series of emergency incidents without directly limiting current operations or possibly even conducting furloughs near the end of the fiscal year. In the past we were able to defer contracts or equipment purchases and thus in effect borrow against future budgets. While this practice in itself has negative implications on sustaining the Agency's operational capabilities, we no longer can rely on that sort of budget adjustment and be sure that we can deal with emergencies and still meet our other public health responsibilities.

QUESTION: How will the Contingency Fund help with such emergencies in the future? What are your plans for access to the Contingency Fund?

ANSWER: The Agency proposes a threshold which would trigger FDA use of these funds. When the unusual direct costs of a product emergency, such as overtime, travel, and supplies exceeds $100,000, then we would utilize the Contingency Fund to cover all such costs of that particular emergency. This threshold would also provide the assurance that we could assist the States or other PHS agencies when their assistance is needed in addition to FDA's own resources, and their own budgets are not sufficient to absorb such unusual costs.

At the very beginning of an incident, we would not have to limit our operational planning in fear that funds for overtime, for example, would not be available. While emergency incidents always require a great deal of time and attention by many Agency employees, the Contingency Fund would at least alleviate the resource problems involved--that is, we would not have to upset the execution of the current year's budget and jeopardize support of continuing operations, and, moreover, we would not have to defer purchases and thereby limit future performance.

ORPHAN DRUGS

QUESTION: You indicate in your statement how critical research is in the area of orphan drugs and that you are working with other Federal agencies and outside groups. How much was spent by FDA on orphan drug research in fiscal year 1982, is being spent in fiscal year 1983, and projected for fiscal year 1984? Can you give us an idea how much is being spent by other Federal agencies and by outside groups in this area?

ANSWER: In FY 1982, FDA devoted $1.5 million to Orphan Drugs activities, of which about $500,000 was for intramural research. In FY 1983 and FY 1984, FDA expects to spend at least $2 million for orphan product activities, of which about $700,000 will be for intramural research, and another $500,000 will be for extramural research studies. NIH estimates that in FY 1982 it spent about $66 million on orphan drug research.

The Veterans Administration and the Department of Defense are represented on HHS' Orphan Products Board. VA has a large intramural and extramural research program but does not have the studies classified in a manner that would allow it to tally the amount devoted to support of orphan drugs. Similarly, we do not know how much DOD spends in this area.

Drug companies support orphan drug research through their own intramural efforts and through support of clinical investigators, and finally, numerous private foundations as well as voluntary organizations provide grant support to researchers. We have no figures on how much of this support is devoted to orphan drugs. In some cases, of course, a drug under study for other uses may be found to have an orphan use, or vice versa, so it would often be difficult to categorize research expenditures precisely.

FUTURE OF FDA

QUESTION: What do you see as the greatest challange to the FDA over the next five to ten years?

ANSWER: In a recent conference of top agency scientists and managers, a consensus was reached that the single most critical factor affecting FDA's future operating environment was the explosive rate of scientific and technological breakthroughs occurring in FDA-regulated industries. New technologies are emerging that affect virtually every industry sector regulated by the agency. For example, innovative imaging approaches such as nuclear magnetic resonance have been developed to diagnose disease. Genetic engineering is being employed to investigate the treatment of diseases through such radically new procedures as hybridoma technology, which allows for large scale production of pure antibodies. Agricultural experimentation is also underway to investigate new ways of improving plants and animals via genetic manipulation, thereby expanding our food supply. New information technology which allows for direct, diverse, and continuous communication links between FDA and industry will probably also play a direct role in future product review and approval activities.

New technological advances such as the above pose several challenges to agency scientists. First, the decision to approve or disapprove products of new technologies still rests with FDA regardless of how esoteric these innovations may be. The effectiveness of approval decisions is a function of FDA's ability to understand the impact of new product technologies. Second, the advent of these technologies is causing the agency to reexamine what role the FDA scientist will play in conducting regulatory science, e.g., how clinical research on products of bio-technology should be monitored, and what forums should be established for communication with industry and health professionals about new advances. Third, agency scientists will be called upon to maintain a delicate balance of activities that allows sufficient understanding of new science and technology to make knowledgeable judgments on new product approvals, while maintaining a vital role in addressing ongoing health concerns.

The reach of FDA's scientific expertise extends from highly visible health problems of national concern, to problems associated with highly specialized products involving perhaps only a few hundred people. Often these health problems require FDA scientists to move in quickly to resolve an existing crisis and prevent it from expanding. On other occasions, scientists have successfully anticipated potential hazards, taken quick action, and thus averted health crises. To be able to resolve the variety of health and safety problems that arise, scientists must have the ability to identify their source and scope. In many cases, they are able to accomplish this through use of existing analytical detection methods; in other cases, they have had to develop new techniques, often with a rapid turn-around. FDA's state-of-the-art laboratory techniques and recognized expertise have, in many instances, encouraged industry to work voluntarily with the agency to improve the safety and efficacy of their products.

To meet the needs of current and future regulatory science in an era of unprecedented scientific and technological diversification, FDA must continue to enhance the quality and quantity of its scientific capabilities. Plans for the future include continued upgrading of scientific facilities and equipment, expanded monitoring and assessment of emerging health-related technologies, and expanded capacity to review new product applications. The importance of having current and efficient scientific facilities and equipment cannot be overemphasized because the quality of analysis produced with these capabilities is relied upon to support regulatory decisions. Consequently, the repair and improvement of existing laboratory facilities is of critical importance. Construction of new headquarters laboratories at Beltsville is a focal point in planning FDA's future science environment. The new laboratory and animal holding facilities will also result in better management of FDA's animal research activities.

The agency will be looking to further expand its capabilities for monitoring and assessing new technological developments, and this will need to be complemented by increasing FDA scientists' knowledge so that they can remain current in new scientific developments. The ability of scientists to stay current with their counterparts in industry and academia will rely upon an agency investment in professional development that allows for participation in scientific conferences and symposia, and training activities, such as rotation of FDA staff fellows outside the agency, to develop new research skills.

New scientific advances continue to appear and manifest themselves in commercially feasible products. FDA must look to an equivalent expansion in its review capacity to meet the expected growth in new product applications. Such an expansion will assure that new products will receive a timely and effective review.

To summarize, FDA's future science role will be played out in an environment characterized by a virtual explosion of new scientific and technical information. To perform this role effectively the agency will require scientists who can maintain state-of-the-art knowledge by keeping intact a strong communication network with other scientists inside and outside of FDA, a laboratory system which facilitates continued improvement in needed research capabilities, and a management orientation toward adapting to future environmental developments, while maintaining the stability of the regulatory science function.

TAMPER RESISTANT PACKAGING

QUESTION: As you know, I am very concerned about the various types of tamper-resistant packaging and that it does not interfere with the ability of the elderly and disabled to open drugs. You indicated in your Statement that an experimental study is being developed and will be conducted in the future. Will you please elaborate on this study and give us more details on how it will be conducted and what you hope to find, etc.

ANSWER: Essentially, the objectives of the study are to determine if the current techniques of tamper-resistant packaging (TRP) produce additional burdens to the elderly and handicapped, and if so, to quantitate such burdens. In an effort to expedite the study, we have decided to proceed immediately with that portion of the study related to normal and elderly subjects, and to implement a separate study to test disabled and handicapped subjects. This strategy will eliminate unnecessary delay in initiating the study relating to the elderly, and at the same time enable us to address the complicated policy and medical issues relating to the study on the handicapped, such as criteria for subject selection and/or medical examination. The Agency is fully committed to conducting this subsequent study, and plans to begin outside participation in addressing these issues as soon as possible.

The first study will be on the non-institutionalized, non-homebound, elderly. We will have a total of four panels in this study. One will be a control population of younger adults, ages 20 to 64. The three elderly panels will be ages 65 to 69, 70 to 74, and 75 and up. This last panel will be subdivided into several age groups to assure adequate representation of subjects through ages 85 and above. Each panel will consist of 192 subjects of the defined age group.

The protocol of the study is based on statistically sound experimental design. Our plans call for the testing of representative marketed products using ten different tamper-resistant packaging techniques. These packages will have non-child resistant closures within so that we can measure the added burden of TRP without interaction from child-resistant closures. However, we also plan to include one tamper-resistant package with a child-resistant closure within to assess the burden of the combination. We will furnish for the record a draft copy of our present experimental design which will give further details. (NOTE: Subsequent to the hearing, the CPSC proposed to augment the study to provide for the testing of an additional five products having TRP with child-resistant closures on the oldest panel of subjects. This would require an additional 360 subjects in this panel.)

We are planning to complete the FDA review and clearance of the interagency agreement under which the study will be conducted, and other necessary papers for the study on the elderly and transmit them to the Consumer Product Safety Commission (CPSC) by the beginning of May 1983. Allowing for the time CPSC will require for contract modification, we plan to begin the testing of the subjects in June.

FREEDOM OF INFORMATION ACT (FOIA)

QUESTION: It is my understanding that a few months ago a major drug company discovered that confidential, inactive ingredients in a new drug were made public by the FDA when it responded to a FOIA request filed by a competitor of the drug company. How many FOIA requests does FDA get in a year? How many staff years are devoted to FOIA requests?

ANSWER: In calendar year 1982, the Agency received 34,400 requests, requiring 128 staff years. Since 1979, the number of requests received has averaged 34,000 annually, requiring approximately 130 staff years.

QUESTION: Are most of these requests for information from other companies who want to know about their competitors?

ANSWER: Nearly 82 percent of the requests were from commercial information-providing enterprises, FDA regulated industries, and attorneys, and we believe the great majority of these requests are for competitive purposes. The remainder were from individuals, the news media, and public interest groups.

QUESTION: Has this type of situation I described occurred more than once? How often? Have you made any policy changes in regard to releasing information under a FOIA request? If so, how?

ANSWER: During the period from January 1981 through September 1982, in which 70,000 requests were received, only nine complaints of inadvertent release of confidential information were raised to the FOI Staff Director. Four other complaints had been recorded, but FDA disagreed that the information was confidential, and the complainants carried the complaint no further. Our policy with regard to release of information has not changed.

QUESTION: Didn't you conduct a study of this problem? What were the results?

ANSWER: The Agency has recently completed a very comprehensive study which concludes that if FDA notified individual firms before records they submitted were released, the estimated additional costs could be $1.6 million (44 additional staff years); if notifications were required before releasing all requested records, including FDA-generated records such as reports of inspections, the estimated additional costs could be $3.7 million (103 additional staff years).

QUESTION: What is your current FOI fee schedule? When were these last raised?

ANSWER: The Department's current FOI regulations, which became effective September 22, 1982, increased fees charged for clerical and non-clerical searches from $3 per hour to $10 per hour. Copying charges remained the same at 10 cents per page. It should be noted that charges for search time are only for actually locating the documents--we cannot charge for the time needed to review the documents for confidential information, for example.

BUDGET CONSTRAINTS

QUESTION: Your Fiscal Year 1984 budget request represents an essentially even level of activity. And for the past couple of years FDA has been under rather tight budgetary constraints. In your judgement, is your budget adequate to fulfill your obligations under the law? How will this affect the operations and travel of your inspectors? Has the current budget situation impacted on FDA's ability to perform follow-up inspections?

ANSWER: Although FDA's personnel levels have been reduced from those of a few years ago, these reductions will not affect the Agency's basic ability to carry out its fundamental responsibilities under the law. We believe, barring something unforeseen, that the request for 1984 will allow us to function as the law and Congress and the public expect.

The request for 1984 will sustain basically the 1983 level of activities. Since the request includes increases for inflationary costs, we should be able to provide a proper level of support for inspection programs as well as our other laboratory and product review operations. Just as important is our request for equipment funds to raise equipment purchases to a more realistic level which will allow us to replace outmoded equipment and procure newer technology as needed.

In conjunction with the Contingency Fund which is being requested as a 1983 Supplemental, the request for 1984 will provide a realistic level of support for current activities, and will prevent our having to mortgage the future by deferring needed procurements if unforeseen emergencies force us to incur unusual direct costs.

With regard to follow-up inspections, we normally expect that about 10% of food establishment inspections, for example, will need follow-up or repeat inspections of the same establishments for various reasons. Just as our Field workplans are developed with the idea of providing greater coverage to products or firms which may present a higher risk to the consumer, as the year goes by we would direct inspectional resources to follow-up inspections where we perceive a likelihood of continued violation of the law or a continuing public health risk.

NCTR

QUESTION: Since Fiscal Year 1982, the Environmental Protection Agency's (EPA) contribution to the operation of NCTR has declined. Please provide for the record a complete history of EPA's contribution to NCTR through 1982.

ANSWER:

EPA's CONTRIBUTION TO NCTR

Fiscal Year	($000)
1971	$2,100
1972	4,000
1973	4,000
1974	4,000
1975	4,000
1976	4,000
1977	4,000
1978	4,000
1979	5,000
1980	4,000
1981	4,500
1982	1,823

QUESTION: Is EPA discontinuing its support of NCTR this year, as was planned?

ANSWER: In 1983, EPA will contribute $910,000 for the operation of NCTR and plans to discontinue its core support of NCTR in 1984.

QUESTION: What will be the impact on NCTR's program with reduced funding by EPA? Has FDA increased its share of the budget for NCTR?

ANSWER: FDA has minimized the impact of the loss of EPA funding by reallocating funds from all other activities to support NCTR in the amount of $2.6 million in 1982, $.9 million in 1983 and an additional $.9 million in 1984. Without this action by FDA, the reduction of $4.5 million over 3 years would have severely damaged the efficiency of this operation by reducing capacity below that which optimizes economies of scale associated with the efficient utilization of testing facilities--the cost per animal tested and per ton of dosed feed produced. Physical facilities, equipment, contractors, and government personnel have been utilized in a way which most efficiently and effectively responds to FDA's and EPA's critical need for animal testing of food additives, drugs, and environmental chemicals.

Thus, without reallocated funding we would have been unable to honor our commitment to the National Toxicology Program (NTP). In addition, there would be a loss of difficult-to-recruit contract personnel in essential areas such as pathology and data processing, and a reduction in-force of 25-40 government employees.

QUESTION: Do you still maintain a NCTR liaison office in Rockville? How many people are in the office?

ANSWER: NCTR continues to maintain a liaison office in Rockville. It is staffed presently with one professional and one support position.

QUESTION: Please describe for us the main reasons for the existence of the NCTR. What is the relationship between NCTR's program and FDA's regulatory mission?

ANSWER: The President announced the establishment of NCTR on January 27, 1971 as the result of a growing recognition of two kinds of needs; better approaches to the understanding of what the data acquired from experimental animals means for man, and more extensive facilities for the safety evaluation of the many chemicals in man's environment.

The Center was established to examine the biological effects of a number of chemical substances which are found in man's surroundings, such as pesticides, food additives, and therapeutic drugs; to perform research aimed at understanding the mechanisms of action of these chemical substances, their metabolism in the animal organism, and their rate of absorption and excretion; and to undertake directed studies aimed at an understanding of dose/response relationships, especially for realistically long exposures to low dosages of chemicals. The latter category of research requires the use of large numbers of experimental animals in order to assure valid statistical results.

The President stated that NCTR would be administered by the Food and Drug Administration and that it would be a useful research resource in regulating drugs, food additives, and other consumer products and be considered as a national resource, shared and utilized by other Government agencies. Also, arrangements were made for cooperation with industry and the academic community.

In the Agency's judgment, it would be more difficult for FDA to accomplish its mission without NCTR for several reasons. First, FDA needs to address growing consumer expectations for protection and information, because of the continually increasing potential for biological harm due to rapidly changing chemical technologies, agricultural/manufacturing practices, and industrial accidents. Second, FDA has no alternative facility in which to develop test protocols and risk assessment models which are necessary for FDA to continue to make informed decisions as to approval of food additives and drugs and tolerances for other contaminants in food.

Currently, NCTR scientists are focusing their efforts at identifying biochemical interactions between toxic chemicals and the host tissue. These long-term studies require close observation and feeding of animals to study long-term, low-level dosage effects on exposure to certain toxic chemicals and to provide the statistical validation of the scientific data. Current studies involve a number of human drugs, as well as food and animal feed additives. In addition, NCTR is conducting studies of triethylene tetramine dihydrochloride (TETA), a possible treatment for Wilson's Disease, in support of the Orphan Drugs Program.

DELANEY CLAUSE

QUESTION: What is your present view of problems involving the Delaney Clause?

ANSWER: The Delaney Anti-Cancer Clause states that a food additive cannot be deemed by FDA to be safe if it is found to induce cancer upon ingestion by man or animals. A similar provision exists for color additives. Since both food and color additives require pre-market approval after a determination by FDA that safe conditions of use have been established by the petitioner, the Delaney Clause serves as a barrier to those food or color additives that have been shown to cause cancer. The difficulty with the Delaney Clause as written is that it, by its terms, prohibits approval of even a small amount of an animal carcinogen. The rigidity of the Delaney Clause might have been reasonable in 1958 when it was first enacted. We now believe, however, that the increasing number of substances that have been found to cause cancer, the increased ability to detect minute quantities of carcinogens in unexpected places, and our developing ability to quantify upper limits of risk, when taken together, makes the rigidity of the Delaney Clause inappropriate.

QUESTION: You have, undoubtedly, reviewed and studied the proposed legislation which is pending in Congress. Do you support any of the pending legislative proposals?

ANSWER: We have, indeed, looked at all of the proposals that were introduced in the last session of Congress, with particular attention on the Delaney Anti-Cancer Clause and the definition of safe, which go hand-in-hand. While all of the proposals address the concerns just alluded to, we prefer the changes in the definition of safe and the related changes in the Delaney Anti-Cancer Clause that were submitted by the Subcabinet Council Food Safety Working Group that was chaired by Assistant Secretary of Agriculture, Bill McMillan. The Food Safety Working Group's final recommendations were submitted to the Cabinet Council on Human Resources on January 25, 1983. Those recommendations would provide for greater scientific discretion in determining the relevance of cancer data to human risk, and the Delaney Clause would also be modified to permit risk assessment (when appropriate) in determining that food or color additives are safe.

QUESTION: Have you had a chance to study the resource impact of the pending proposals? How soon would the impact be felt?

ANSWER: We have not undertaken a study of the resource impact of the legislative proposals that were submitted during the last session. Indeed, to fully evaluate the total impact of all of these suggested changes would be very difficult in view of the number of different proposals that have been made. If one focuses on the Delaney Anti-Cancer provisions, however, FDA would, under any of the suggested changes, be conducting risk assessments where they have not been conducted before. In addition, and perhaps more significantly, the Agency would be required to spend time evaluating the significance to humans of data instead of assuming, as the present Delaney Clause does, that a feeding study in animals is relevant to human ingestion. There would be a resource impact, but it is difficult to assess with accuracy at this time. The impact of a change in the Delaney Clause would probably be felt by the Agency very shortly after the change went into effect.

QUESTION: Does the Administration plan to propose legislation of its own?

ANSWER: The Administration does not presently intend to introduce legislation of its own. However, the Food Safety Working Group has prepared recommendations which have been accepted by both the Department of Agriculture and the Department of Health and Human Services. Those recommendations will serve as a basis for responding to any proposals that are introduced by members of Congress.

GENERIC DRUGS

QUESTION: Does FDA get involved in the education of consumers as to the safety or effectiveness of generic drugs?

ANSWER: FDA is actively involved in the education of consumers, especially older citizens, in the safety, effectiveness and cost savings of generic prescription drug products. Agency staff makes both in-person and audio-visual presentations which reach wide audiences. Examples of recent FDA activities include presentations of information on generic drugs at three regional meetings of the American Association of Retired Persons, and a videotape on generic drugs which has aired on the Cable Health Network and has been promoted through the National Audio-Visual Center in mailings to hospitals for patient education purposes.

We also respond to many requests for general and specific information about generic drugs by talking to consumer groups and by providing FDA literature and the videotape.

In addition, we respond to many requests for information about generic drugs and distribute reprints of generic drug articles which have appeared in the FDA Consumer. An example is provided for the record.

[The information follows:]

GENERIC DRUGS: HOW GOOD ARE THEY?

(By Annabel Hecht)

All drugs, whether they are sold under their brand names or their generic names, must meet the same FDA standards for safety, strength, purity, and effectiveness. And all drug manufacturers, big or small, are subject to FDA inspection and must follow the Agency's Current Good Manufacturing Practice Regulations. That is why FDA believes there is no significant difference in quality between generic and brand name drugs.

Are generic drugs as good as brand name products?

The answer to that frequently asked question is, for the most part, "yes," according to the Food and Drug Administration. As FDA Commissioner Donald Kennedy has said, "There simply is no evidence to support the notion of serious quality differences between generic and brand name drugs."

The differences are largely semantic. All drugs have a generic name, also called the "official" or "nonproprietary" name. A generic name is assigned to a drug when it appears that it has some therapeutic usefulness. Newly developed drugs also are given brand or trade names. Unlike generic names which usually are contractions of a complex chemical name, brand names generally are short, easy to remember, and often devised to suggest the pharmacological action of the drug.

It is the brand name that is used to advertise a drug to the medical profession, although the generic name must appear in advertising and labeling in letters at least half as big as that of the brand name. Aspirin, for instance, is the generic name for the leading nonprescription painkiller; Bayer and St. Joseph's are brand names for different manufacturers' aspirin. Whether you buy a bottle of "house brand" aspirin at a discount drugstore or a nationally advertised brand, there will be no difference in the pain-killing quality of the products because any drug that claims to be aspirin must meet the official FDA standards for that drug.

The same principle applies to prescription drugs.

Tetracycline is a widely used prescription antibiotic. A physician may write a prescription for this drug by its generic name, or may prescribe it under the brand names Achromycin, Sumycin, or Tetracyn. No matter what name is used, each drug must meet the same standards for tetracycline. (Antibiotics have an extra measure of assurance because every batch of antibiotics must be tested and certified by FDA before it can be sold.)

It is a popular misconception that brand name drugs are produced only by large, well-known firms, while generics are made by small, unknown companies. A small drug company can put a brand name on its product just as a large company can market a drug under its generic name. And many large drug firms distribute, under their brand names, products that have been manufactured, packaged, and labeled by firms that make generic drugs. Some manufacturers may make a drug and sell it under both a trade name and its generic name. In other instances large firms may make the final dosage form from drugs purchased in bulk from other companies.

As an example of the complexities of drug marketing, ampicillin, a widely used antibiotic available under 224 product labels, is produced by only 24 formulators, and 219 conjugated estrogen products are produced by 45 manufacturers.

Since the name of the actual manufacturer of a drug does not have to appear on the product label (except in a few States), neither consumers nor pharmacists may be aware that a drug carrying the brand name of one company actually was made by another firm.

Not only must each drug meet FDA requirements, so must each drug plant. All firms—large and small—must register with FDA; all are subject to periodic inspection, and all must follow FDA Good Manufacturing Practice Regulations (GMP's) that touch on every aspect of making drugs, from building maintenance to quality control. These regulations apply to all producers and are intended to assure that all drugs meet the same standards of safety, strength, purity, and effectiveness. These requirements, in fact, were built into the 1962 amendments to the food and drug laws for the very purpose of encouraging physicians to make wider use of generic drugs in order to lower the cost of medical care, according to the co-sponsor of the legislation, the late Senator Estes Kefauver.

Other FDA standards provide further assurance of drug equivalence.

Before a new drug can be put on the market, the manufacturer must submit an application to FDA. It must include the results of tests carried out by the manufacturer in several phases—in the laboratory, in animals, and finally in human volunteers—which demonstrate that the drug is safe and effective for its intended use. If the application is approved the manufacturer may market the drug. If the manufacturer has patented the product, that manufacturer has the sole right to sell the drug until the patent expires. In some instances a patent holder may give other firms the right—usually in return for payment of a royalty—to make and sell a patented drug. Drug patents run 17 years. If there is no patent or the patent has expired, other firms may manufacture and sell the drug, either under its generic name or under different brand names.

These firms, however, must file an application with FDA giving details about their plants and personnel, and how they will make the drug. FDA inspectors visit these plants to determine whether they have the capability to produce the drug. Samples of the product are tested in an FDA laboratory to make certain they meet the official standards. While these manufacturers usually do not have to go through the full range of tests required of the firm that submitted the original application to market the drug, they may be required to carry out some studies to assure FDA that their products will be up to standards established for the drug.

Another assurance of drug quality stems from FDA's monitoring programs. FDA periodically collects samples of all drug products, both generic and brand name, from manufacturers and from the marketplace to test them for purity and strength. FDA has two specially equipped laboratories for this testing. The National Center for Drug Analysis in St. Louis, Missouri, does the bulk of this work, while about 10 percent is carried out by the Winchester Engineering and Analytical Center near Boston. Automated equipment in these labs permits rapid analysis of many drug samples at the same time. When trouble is found or suspected, the drug company is notified immediately. Faulty products are removed from the market.

Batch testing and certification is required by law for insulin and for biological products such as vaccines and serums, as well as for all antibiotics. When FDA discovers particular problems with a drug, as it did for the heart drug digoxin a few years ago, it may require that each batch of that drug be tested before it can be released for sale.

Testifying before a Senate subcommittee, FDA Commissioner Kennedy noted that as far as quality is concerned FDA's analysis of drug samples revealed "no evidence of widespread differences between the products of large and small firms, or between brand name and generic name products." In regard to recalls of defective products, Kennedy said, "We are unable to conclude that there is any clear difference between large and small firms based on the recall record."

As better methods have been developed to determine how fast a drug dissolves, a new dimension has been added to FDA's testing program. Under new FDA regulations, manufacturers seeking Agency approval to market a new drug product or make changes in an existing product must conduct tests in human volunteers to determine how much of the active drug ingredient is absorbed by the body, how fast it is absorbed, and the length of time it circulates in the blood. This becomes the standard for that drug and other manufacturers who want to market the same drug are required to meet the same standard.

Certain drugs have shown inconsistencies in their absorption rate or in how long they remain in the bloodstream. For example, tests may have shown that different batches of the same drug made by the same manufacturer have differed in their absorption rate. In other instances, a drug made by one manufacturer may have shown a different absorption rate than the same drug made by another manufacturer. When this occurs, the drug is said to have "bioequivalence" problems, which means that there has been difficulty in assuring that different batches of the drug will always behave in the body in the same way.

The new FDA regulations spell out special procedures for drugs with known or suspected bioequivalence problems. Manufacturers wanting to market such drugs will have to conduct certain additional tests in humans and animals as well as in the laboratory. Batch-by-batch certification by FDA could be a part of the requirement if the Agency considers it necessary. After the requirements have been satisfied, FDA will continue to check on these drugs from time to time to make certain they are up to standard.

While most drugs do not pose "bioequivalence" problems, about 30 have been identified which will require additional tests for bioequivalence.

FDA's program to assure that generic drugs are as good as brand name products should be of more than passing interest to consumers, for it concerns their wallets as well as their health. Because generics generally are cheaper than their brand name equivalents, economists long have maintained that one way to help hold down the rising cost of medical care is to encourage physicians to prescribe drugs by their generic names, and to encourage pharmacists to fill prescriptions with the lowest-cost version of the prescribed drug.

There has been a growing movement among the States to overturn laws which forbid pharmacists from dispensing any version of a drug product other than that specifically prescribed by the doctor. Under such laws, if a doctor prescribes a certain brand of tetracycline a pharmacist cannot substitute generic tetracycline or even another brand, although they may cost less and are the chemical "twin" of the prescribed brand. Only twenty-one States still have these so-called antisubstitution laws. Some States that have relaxed them now permit the pharmacist to choose a substitute product unless the prescriber forbids it, while other States require a prescription form with two signature lines on which the prescriber must indicate approval or disapproval of substitution.

Even without changes in the law, generic prescribing is on the rise. A national audit of prescriptions filled in retail pharmacies showed that 86.5 million generic prescriptions were filled in 1976, nearly 12 percent of the total new prescriptions for that year. Ten years earlier generic prescriptions accounted for only 6.4 percent of the total. Another survey predicts that by 1985 the number of generic prescriptions will triple as drug patents expire. At present, of the 200 most frequently prescribed drugs, about 60 to 70 are available generically, but of these only 15 are prescribed with any frequency.

Antibiotics top the list of the 20 leading generic drugs. Prescriptions for the six most popular generic antibiotics totaled well over 46 million in 1976, representing 54 percent of all generic prescriptions.

In the face of FDA's assurances that there are no differences between generic and brand name drugs, consumers might ask why physicians don't write more generic prescriptions. There is no single answer to that question. Some physicians may feel more confidence in the products of familiar drug companies. Others may not be aware of the difference in price between a brand name drug and its generic equivalent, or they may not know that a generic version of a particular drug is available. Patients who are concerned about their health care dollars may wish to ask their physicians to prescribe and their pharmacists to dispense generic drugs when they are available.

Another factor that plays an important role in influencing physicians' prescribing practices is the promotional activities of drug manufacturers. One form of this promotion is advertising in medical journals. Another is personal visits from representatives, called "detail men," who talk up their company's products and leave samples and attractive literature with the physicians they call on. A third channel of promotion is the PHYSICIANS' DESK REFERENCE, a publication made available without charge to physicians and some pharmacists. Drug companies pay to have essential information about their products included in this valuable reference work. Those that do not pay do not have their products listed.

After years of this kind of promotion, it is little wonder that physicians tend to prescribe a drug by its brand name purely out of habit, even when a generic version is available.

As the public and the medical, pharmacy, and other health professions gain more understanding of the quality assurance programs enforced by FDA, generic prescribing and purchasing is likely to increase. The result should be lower cost, but equal quality health care.

FDA Endorses New York Equivalent Drug List

The Food and Drug Administration (FDA) has advised New York that the State's newly published drug list is an accurate guide to prescription drugs considered by FDA to be safe, effective, and equivalent in therapeutic performance.

FDA said that the New York drug list may be useful to other States which, like New York, allow pharmacists to substitute less expensive "generic" drugs for equivalent higher priced brand name products.

The New York drug list was prepared and issued as part of a new State program to reduce prescription drug costs without sacrificing quality.

Under the New York law, beginning April 1 physicians may, after notifying the patient, instruct the pharmacist to fill a prescription with a less expensive product provided it is listed in the State's list of drugs.

In explaining the significance of FDA's action, Commissioner of Food and Drugs Donald Kennedy said: "FDA concurrence in the New York list reflects the Agency's view that there is no consistent difference in quality between drug products sold by large and small firms or between drugs sold under a brand name or 'generic' name. We have a single standard for drugs in this country."

The Commissioner continued: "FDA plays no formal role in how prescriptions are written or filled. State laws govern whether pharmacists can use their professional judgment in substituting a less expensive product when a doctor writes a prescription for a more expensive one.

"The list compiled by New York State contains drug products we believe doctors can prescribe and pharmacists can dispense with confidence.

"States that permit substitution and want some assurance of therapeutic equivalence can use this New York State publication with knowledge that FDA has approved all the products on the list and the manufacturers listed have FDA approval to make them."

The New York drug list was compiled with FDA assistance after the State legislature enacted a law that requires all prescription forms used after April 1, 1978, to contain two signature lines for the physician. Beneath one line the words "substitution permissible" are imprinted; beneath the other are the words "dispense as written."

The doctor may sign either line. If the doctor decides that substitution is permitted, the pharmacists must substitute a less expensive product, provided it is on the State list.

As an example of how a drug is listed, tetracycline hydrochloride, a frequently prescribed antibiotic, is listed as being made by 26 manufacturers. Ten of those manufacturers are listed as selling the antibiotic under a brand name such as Achromycin, Panmycin, or Tetracyn, while the remaining 16 sell it under its generic name, tetracycline hydrochloride.

A drug product will remain in the official listing as long as there are no unresolved problems about its equivalence.

Commissioner Kennedy's endorsement of the New York State list was contained in a letter to State Health Commissioner Robert P. Whelan.

QUESTION: How do consumers find out if it is safe to substitute a generic drug for a branded name?

ANSWER: There are several ways that consumers may get such information. Besides asking a personal physician, the consumer may find out from his pharmacist whether or not a generic drug is substitutable for a brand name drug. The pharmacist has access to the FDA publication "Approved Prescription Drug Products with Therapeutic Equivalence Evaluations" and can use this information as the basis for his answers. However, each state has specific laws and regulations covering the substitution of generic prescription drug products for brand name products. Most states require the physician, the pharmacist and the patient to concur in the substitution, and usually the generic product must cost less than the brand name product.

Consumers can get information on substitution for some specific drug products at various consumer meetings. Frequently, Agency representatives attend such meetings and respond to requests for information. Consumers may also call or write the Consumer and Professional Relations Staff of the National Center for Drugs and Biologics or the FDA Consumer Affairs Office in their district for specific information concerning the substitutability of a generic for a specific brand name prescription drug product.

AGENCY INTERACTION WITH FSIS

QUESTION: Please explain your relationship with the Food Safety and Inspection Service of USDA in regard to your inspectional efforts. Is there any duplication of these efforts?

ANSWER: Over the past few years, FSIS and FDA have developed closer working relationships at all levels of our food inspection efforts. While FDA enforces the FD&C Act through inspection of food processing plants and other establishments, its regulatory approach is one of surveillance, in that no plant is required to be under continuous inspection, and plants are inspected at varying time intervals.

The Federal Meat Inspection Act, the Poultry Products Inspection Act, and the Egg Products Inspection Act require USDA to inspect every meat and poultry carcass at the time of slaughter, and to inspect egg product processing plants continuously, largely because these products are more easily contaminated, and because the effect of such contamination is more likely to present an immediate health risk. When meat and poultry products are further processed, all meat and poultry processing plants must be inspected at least daily. USDA responsibility also extends to processed foods containing more than 2 percent meat. FDA shares responsibility once these products leave USDA-inspected plants.

A Memorandum of Understanding (MOU) between the two agencies, published in the Federal Register of September 14, 1979, facilitates this cooperation. The MOU establishes procedures to minimize overlap in the inspection of meat and poultry-containing products. In the memorandum, both agencies agree to provide each other with information that one has obtained on products under the other's jurisdiction, and to notify the other immediately when such products are found to be handled under unsanitary conditions or otherwise suspected of adulteration. In plants where FSIS performs voluntary commodity inspection and grading for a wide variety of foods, FSIS also inspects for sanitation, wholesomeness, and labeling accuracy. We believe that our formal agreements and continued cooperation with USDA have eliminated any significant duplication of effort.

FDA and FSIS have also developed cooperative programs to detect, investigate, and prevent violative residues of animal drugs in meat and poultry. FSIS reports findings of overtolerance residues from tissue samples to the animal owners and to FDA. On the basis of these overtolerance reports, FDA conducts inspections of animal producers, feed suppliers, and dealers. Each Agency's areas of responsibility are clearly defined, and we are collaborating effectively to ensure that each Agency's expertise is best utilized and efforts are not duplicated.

USER FEES

QUESTION: For the past two years, the President's budget has contained several proposals for User Fees. What are your thoughts on the use of user fees for your regulatory activities and services? To what extent are user fees utilized by FDA at the present time? Are there any areas of FDA activities that are not now supported by fees which you feel could be?

ANSWER: At the present time, FDA is not collecting any fees under the authority of the User Fee Act. We are, however, collecting fees under authorities provided in other Acts for a variety of activities. For example, FDA provides an Insulin Certification service, and certifies all batches of insulin before they are allowed to be marketed. Similarly, we certify all colors used in foods and drugs. Both of these activities, by law, are carried out on a fully self-supporting basis. In 1984, FDA expects to collect approximately $2,250,000 as a result of charges that we make to industry for these two activities. These are the only two programs subject to fees that go into a Revolving Fund and support Agency operations. There are three other activities for which a fee is collected, and the receipts from these collections are deposited into the Treasury rather than credited to FDA. These activities are inspection of tea offered for import, for which we expect to collect approximately $62,000 in 1984; supervising the reconditioning of regulated products that would not otherwise be allowed in interstate commerce, for which we expect to collect approximately $160,000 in 1984; and collection of fees for services provided under the Freedom of Information Act, for which we expect to collect approximately $225,000 in 1984. With respect to this latter item, as discussed at the hearing, FDA's anticipated total costs associated with implementing the Freedom of Information Act are approximately $4.7 million, while our receipts in connection with implementing the Act are only about one-twentieth of that amount, and even then these receipts are returned to the Treasury rather than being offset against our appropriation.

With respect to our thoughts on User Fees, FDA has pledged to make an open-minded reassessment of the possibility of applying User Fees to some FDA activities. That assessment is underway, and discussion on this subject will be held with the Public Health Service, the Department, and the Office of Management and Budget in the context of preparing our 1985 budget request. Since that study is underway, but not completed, it would be premature at this point to speculate on particular areas of FDA activities that might be supported by User Fees in the future.

ORANGE JUICE ADULTERATION

QUESTION: As you know, the problem of orange juice adulteration has been of concern to this Committee. It is my understanding FDA has been meeting with the Florida Citrus Commission to discuss development of better detection methods to alleviate this problem. Has any of the $500,000 offered by the Florida Citrus Commission been accepted by FDA? Why? How soon can we expect a full report on this problem? Please outline any progress made to date.

ANSWER: A meeting with representatives of the Florida Department of Citrus (FDOC) and FDA was held on January 28, 1983 concerning the $500,000 offer. At the meeting, FDA gave reasons why it believed it would be inappropriate to accept the funds for investigational purposes. However, two alternatives were suggested. First, Florida could fund the cost of acquiring authentic pack juice samples from the various locations (Mexico, Brazil, etc.). Such samples could be used in the methodology investigations presently being carried on by the Bureau of Foods. It was suggested that possibly the FDOC pilot plant might be utilized for manufacturing the juice.FDA is preparing a cost estimate for this project.

Secondly, FDOC might wish to contract directly with certain States which have the laboratory capacity and desire to pursue the orange juice problem. FDA expressed willingness to work with FDOC to prepare a list of candidate states. FDA volunteered to counsel with the states as to methodology selection.

We can not predict, at this time, when we will have a full report on this problem. Further contacts and discussions are expected to take place in the near future.

DRUG APPROVAL PROCESS

QUESTION: Your statement indicates that in 1984 you intend to reallocate 35 staffyears from other activities to research on human drugs. How many staffyears are devoted to this area at this time?

ANSWER: At the present time only three staffyears are devoted to research in the area of drug development. While FDA has traditionally been involved in research on biological products and on developing methods of testing drug products, the Agency has not been involved, except to a very limited extent, in research directly related to new drug development.

QUESTION: Please advise what areas these 35 staffyears will be drawn from. Will other vital activities suffer as a result of this reallocation?

ANSWER: No. The proposed reallocation of resources to expand our research capabilities will be achieved through a general reduction across-the-board, except for the New Drug Evaluation project. We believe this is the most suitable way to enhance this program and will do so without compromising the capabilities of our other programs to protect the public health.

STAFFYEAR REALLOCATION

FOODS	9
HUMAN DRUGS	10 1/
BIOLOGICS	3
ANIMAL DRUGS & FEEDS	3
MEDICAL DEVICES	2
RADIOLOGICAL PRODUCTS	3
NCTR	2
PROGRAM MANAGEMENT	3
	35

1/ 10 staffyears will be reassigned from within the Human Drugs activity.

QUESTION: How many new drugs were approved in 1981 and 1982. Please describe what they were and for what treatment.

ANSWER: In 1980, of the 108 new drug applications (NDA) approved, twelve were new chemical entities. In 1981 there were 87 NDAs approved, but the number of new chemical entities increased to 27--the most "totally new" drugs approved since 1962 when new legislation was passed governing the drug approval process; and in 1982, of the 108 NDAs approved, 28 were new chemical entities. Unlike 1981, which had a concentration of cardiovascular products, 1982 approvals were spread throughout the medical spectrum.

[The information follows:]

1981

GENERIC NAME	INDICATION
Albuterol	relief of bronchospasms
Alprazolam	antianxiety
Alprostadil (PGE$_1$)	peripheral vasodilator
Amiloride HCl	antihypertensive
Atenolol	antihypertensive
Bethanidine sulfate	antihypertensive
Buprenorphine HCI	analgesic
Captopril	antihypertensive
Cefotaxime sodium	antibiotic
Ceruletide	diagnostic (cholecystography)
Estramustine phosphate sodium	antineoplastic
Flunisolide	anti inflammatory steroid
Gemfibrozil	antianxiety
Halazepam	diagnostic
Isosulfan blue	diagnostic
Ketoconazole	antifungal
Mezlocillin sodium	antibiotic
Moxalactam sodium	antibiotic
Nifedipine	antianginal
Piperacillin sodium	antibiotic
Saralasin acetate	diagnostic
Secretin	diagnostic
Sucralfate	ulcer treatment
Sulfadoxine	antimalarial
Temazepam	insomnia
Trazodone	antidepressant
Verapamil	antiarrhythmic

1982

GENERIC NAME	INDICATION
Aclometasone dipropionate	dermatoses
Acyclovir	antiviral, antiherpetic
Azlocillin sodium	antimicrobial
Benoxaprofen	non-steroidal anti-inflammatory
Biosynthetic human insulin	blood glucose regulator
Cefoperazone sodium	antimicrobial
Chymopapain	proteolytic-chemonucleosis
Ciclopirox	antifungal
Diflunisal	anti-inflammatory, analgesic
Diltiazem	anti-anginal
Econazole nitrate	topical antifungal
Etomidate	general anesthetic
Gonadorelin HCI	hormonal mechanism diagnostic
Guanabenz acetate	antihypertensive
Guanadrel sulfate	antihypertensive
Isotretinoin	severe cystic acne
Malathion	pediculicide
Niclosamide	anthelmintic
Penetate indium disodium in 111	diagnostic imaging
Pindolol	antihypertensive
Piroxicam	non-steroidal anti-inflammatory
Praziquantel	antichistosomal
Sodium cellulose oral powder	hypercalciurea type I with recurrent calcium rephroliphcasis (herniated disc)
Streptozocin	antineoplastic
Technetium, Tc-99m disofenin kit	diagnostic imaging
Technetium, Tc-99m, succimer kit	radiopharmaceutical
Triazolam	hypnotic
Xenon 127 gas	diagnostic imaging agent

REVIEW OF REGULATIONS

QUESTION: During the past year or so you have been conducting a review of all FDA regulations. Has this review been completed? Can you bring us up to date on the status of this review? What is the estimate of the resources required to conduct this review in 1982, 1983 and proposed for 1984 and beyond?

ANSWER: This review has been underway for about a year and a half. The review is required to be completed within 10 years, and the Agency estimates it will take the full 10 years. The review is being undertaken in response to Executive Order 12291 and the Regulatory Flexibility Act, which mandates that agencies identify and target for revision or revocation those regulations which impose unnecessary workloads on the general public or on specific segments of the public such as small businesses. In addition, the Agency is looking closely at all proposed regulations to identify the same potential burdens. As a result of these reviews, FDA expects to develop a regulatory approach that is both streamlined and flexible. Greater flexibility will allow the Agency to monitor more effectively the development and use of regulated products--products of a rapidly changing technological environment.

There are currently retrospective reviews in progress for 20 categories of regulations. These include regulations covering Records and Reports Requirements for Radiation-Emitting Products, Blood and Blood Products, as well as Good Manufacturing Regulations for Foods, Medical Devices, and Finished Pharmaceuticals. For some regulations a substantial portion of the review process has been completed, though a further workload remains in terms of publication of final revisions. Examples include the Investigational Device Exemption for Intraocular Lenses, Device Reclassification Procedures and the IND/NDA Regulations.

It should be noted that some of the resources devoted to the formal process of retrospective review would have been devoted to evaluating needed revisions even if the process had not been mandated. We estimate the resources used in 1982 at about $1.2 million, including about 30 staffyears. For 1983 and subsequent years, we estimate that this effort will require about $1.5 million, including about 40 staffyears.

IMPORTED PRODUCTS

QUESTION: How do you assure that imported products under your purview receive the same scrutiny as domestic products?

ANSWER: While the legal requirements for domestically produced and imported products under FDA purview are the same, the surveillance approach and enforcement procedures used to regulate them are quite different.

Domestically, we are able to inspect the manufacturing process and establish procedures to assure the integrity of a product before it enters consumer channels. Enforcement procedures in the domestic area include seizures of violative products, injunctions against establishments causing the introduction of violative products into interstate commerce, and/or the prosecution of violative firms or responsible individuals.

FDA has no authority to inspect or regulate foreign firms directly, and therefore the products do not come under our purview until they are offered for entry into this country. Seizure, injunctions, and prosecution actions can be used against importers in the United States as enforcement measures. However, FDA's primary authority to regulate imported articles is contained in Section 801 of the FD&C Act which specifies that articles are subject to examination at the time of entry. If the articles are violative they can be detained. An importer may then attempt to bring the detained products into compliance. Any detained entry not brought into compliance is refused admission into the United States.

It is difficult to compare directly our scrutiny of domestic and imported articles because of the different approaches, authority, and enforcement procedures used in each area. We can compare the number of examinations of domestically produced goods, through field examinations and domestic sample analyses, to imported articles, through wharf examinations and import sample analyses. However, we have no way to measure the value of an inspection of a domestic manufacturing facility as compared to the physical examination of imported products. To further complicate matters, we have data available on the annual number of import shipments, an estimated 750,000 subject to FDA review, but we do not have any figures on the number of shipments of domestically produced articles that enter interstate commerce. Consequently, we have no common data base.

As a result, we must review our strategies with respect to both domestic and imported products in terms of where violations are likely to occur and what possible health risks are presented by different types of products. For many types of imported foods, for example, we can make a visual examination for evidence of filth, foreign objects, or decomposition. In contrast, we must conduct laboratory analyses in order to detect pesticide residues on raw agricultural products, whether they are domestic or imported. Within each program area, these are the types of factors that bear on the distribution of our field resources. Also, we consider the history of violation rates for different types of products, and the likelihood of risk to the consumer. For example, we are concerned with inspecting establishments that process low-acid canned foods because of the possibility of botulism poisoning, and we give special attention to imported foods such as shellfish which may contain harmful bacteria.

These factors all go into the annual preparation of our field workplan, which includes the planned coverage of imported products. The bureaus, in conjunction with the field organization, seek to revise and refine these plans over time as experience indicates, or as emergency situations arise.

NITRITES

QUESTION: Please bring us up to date on the current status of your nitrate/nitrite work.

ANSWER: The following actions concerning nitrates and nitrites have occurred since January, 1982:

In March 1982 the National Academy of Sciences published the second part of their two part report, titled "Alternatives to the Current Use of Nitrite in Foods". Their report surveyed the status of alternatives developed to date and offered a number of general research recommendations concerning future evaluations of the need for nitrite in various products, as well as long-term research strategies for developing additional alternatives.

FDA published a rule on January 14, 1983, codifying prior sanctions for the use of nitrates and nitrites in red meat and poultry products. These approvals were issued by USDA under the Federal Meat Inspection Act and the Poultry Products Inspection Act (PPIA), respectively, prior to passage of the 1958 Food Additives Amendment.

On March 4, 1983, FDA withdrew proposed rules published November 3, 1972, and December 21, 1979. The 1979 publication proposed to declare that no prior sanction under the Food, Drug, and Cosmetic Act (FD&C Act) exists for the use of nitrates and nitrites in poultry products. Since USDA has determined that a prior sanction exists for these uses under the PPIA, it is necessary for FDA to determine if a prior sanction exists under the FD&C Act. The 1972 publication proposed to adopt prior sanction regulations for nitrates/nitrites in red meat and poultry products and to delete "non-essential" use of nitrates and nitrites. Because FDA merely codified the prior sanction determinations made by USDA, it withdrew that portion of the 1972 proposal concerning prior sanction regulations. FDA also withdrew that portion of the 1972 proposal relating to "non-essential" uses of nitrates/nitrites because the agency believes that it would be inappropriate to delete these uses without thoroughly evaluating the scientific data that have been produced since then and presenting the conclusions the agency has reached on the basis of those data for public comment.

FDA is also reviewing a petition submitted by the National Marine Fisheries Service (NMFS), Department of Commerce, for the use of sodium nitrite in smoked whitefish. This is an old petition that was recently reactivated by NMFS.

SODIUM LABELING

QUESTION: At our hearing last year, we had some discussions on sodium labeling and whether or not legislation to improve mandatory requirements was necessary. Will you please inform the Committee where we stand on sodium labeling now?

ANSWER: Significant progress is being made in the Food and Drug Administration's program to seek ways to make reasonable reductions in the sodium content of foods and to provide more information to the public about the relation between sodium and hypertension. To achieve these goals the agency is carrying out a number of initiatives: FDA is encouraging a reduction in the amount of sodium added to processed food and at home. Toward this end we have carried out a series of meetings and correspondence with various firms and trade associations and substantial change is currently being seen in the marketplace with an increasing variety of lowered sodium products becoming available. Federal agencies are conducting research and regulatory initiatives to aid industry in achieving a voluntary reduction of sodium in processed food; FDA is also encouraging an increase in voluntary quantitative sodium declarations on food labels; FDA is working with industry, other government agencies, and interested non-government organizations to help consumers make the most effective use of sodium content labeling and to increase the consumer awareness of the relationship between sodium and health. The consumer education effort is an extensive, broad-based, multi-facet program which has received significant support from industry, professional organizations, consumer organizations, the media, and Federal health-related agencies; FDA has established a monitoring system to track changes in the sodium content of food, sodium labeling, and consumers' perceptions and marketplace practices to determine if the agency is meeting its goal of reducing sodium consumption and increasing consumer awareness of the relationship between sodium and health.

QUESTION: Are companies voluntarily labeling their products? Have you conducted any recent surveys? What were the results?

ANSWER: FDA's most recent survey shows that approximately 19%

of packaged food sales, by dollar volume, carried quantitative sodium labeling by mid-year 1982, as compared to approximately 14% in 1980. The Agency is repeating the label survey this year, with sample collection between January and June and final analysis by July. Based on the anticipated post-harvest (1982) upswing in sodium labeling reaching the retail level at this time, it is envisioned that the labels of at least one-third of the foods surveyed will be found to bear sodium content information. The Agency believes that these results and anticipated increases represent significant cooperation by companies in voluntarily labeling the sodium content of their products.

QUESTION: Has FDA made its final sodium labeling proposal as yet? When will you do so?

ANSWER: On June 18, 1982 FDA published proposed new rules governing sodium labeling to increase the effectiveness of such labeling. In response to this proposal the agency received approximately 2,700 comments. FDA has evaluated all the comments received and is now in the process of preparing a final rule on sodium labeling. It is anticipated that this final rule will be published early this summer.

QUESTION: Have any major changes occurred in nutrition labeling? Do you still feel voluntary labeling "works"?

ANSWER: There have been no recent major changes in nutrition labeling. The use of nutrition labeling on food products has continued to increase over the past few years, with much of this labeling being provided voluntarily by companies. Currently, over 40% of the dollar value of food sales of products regulated by FDA bear nutrition labeling. In the opinion of FDA, voluntary nutrition labeling is "working".

ARTIFICIAL HEART

QUESTION: Did FDA play any role in the artificial heart transplant of Dr. Barney Clark? Please explain.

ANSWER: FDA's role in this clinical study (as in many others) has been in the context of the investigational device exemption (IDE) review. FDA's IDE regulations are intended to help assure that clinical investigations of devices are ethical and are scientifically sound. The general process for an IDE is as follows: the sponsor of a study submits the IDE to the Institutional Review Board (IRB) at the institution where the study is to take place. The IRB must approve this IDE based on an ethical and scientific review. The IRB must also agree to continue to monitor the study and reevaluate it should any unanticipated complications occur. Following the IRB approval, the sponsor submits the IDE to FDA for its review and approval.

In the specific case of Dr. Clark, the FDA role began in February 1981, when Kolff Medical submitted an IDE for the clinical investigation of an artificial heart at the University of Utah. In September 1981, FDA approved this IDE for patients who cannot be weaned from cardiopulmonary by-pass surgery even after the use of emergency resuscitation measures. This approval was for seven implants. In May 1982, Kolff Medical submitted a supplement to its

IDE to include patients with chronic non-operable, end-stage progressive heart failure as candidates for the artificial heart. FDA approved this supplement in June 1982. On December 2, 1982, the artificial heart was implanted in Dr. Barney Clark at the University of Utah. As part of FDA's on-going monitoring of this IDE, on February 28 and March 1, 1983, representatives of FDA's National Center for Devices and Radiological Health travelled to Salt Lake City. During this site visit to the University of Utah, they met with the study team and the University of Utah IRB, which has the primary responsibility for monitoring this clinical investigation. Finally, they interviewed both Dr. Barney Clark and Mrs. Clark regarding their feelings about certain aspects of the investigation.

QUESTION: What are your conclusions on the success or failure of the transplant?

ANSWER: From a scientific viewpoint, it may be too soon to measure the success of this implantation. The fact that Dr. Clark regained conciousness and was able to function as well as he did is one measure of success, since it is the first time this has been achieved. The knowledge gained from this implantation will not be fully revealed until the research team publishes its reports and the scientific community has an opportunity to react. In determining the degree of success of this venture, the key question must always be "what did we learn that we didn't get from the animal studies conducted prior to the implantation?"

THREE-MILE ISLAND

QUESTION: What role did FDA plan in the radiological incident at Three Mile Island?

ANSWER: As soon as the Federal Agencies were notified of the Three-Mile Island (TMI) incident, then Secretary Califano directed the National Center for Devices and Radiological Health (NCDRH) Office of Radiological Health (then Bureau of Radiological Health) to coordinate DHHS response. During the first month of the accident, FDA's Office of Radiological Health was participating 24 hours a day both at the site and at headquarters.

FDA field inspectors began sampling milk, food, water and animal feed located within a 20-mile radius of TMI on March 29, 1979, one day after the accident. Samples were air shipped to FDA's Winchester Engineering and Analytical Center for analysis. During the subsequent five weeks, over 800 milk, 400 food, and 100 water samples were analyzed. In the first three weeks of monitoring, 69 milk samples were reported to have trace levels of radioactive iodine contamination, the highest being 36 pico curies per liter, which was less than 1/300 of the FDA protective action level of 12,000 pico curies per liter. In the year following the accident, FDA analyzed over 2,800 samples from the TMI area, including 2,000 milk samples.

Immediately following the TMI accident, the Bureau of Drugs (now National Center for Drugs and Biologics) arranged for the preparation and shipment to the Pennsylvania Department of Health of a supply of potassium iodide for up to a million people for use as a thyroid-blocking agent in the event of a significant release of radioactive iodine from the crippled reactor.

The Office of Radiological Health implemented a dosimetry program by placing a total of 237 thermoluminescent radiation dosimeters at 173 sites around the reactor site. These were in place within three days after the initiation of the accident and were replaced about three weeks later by a fresh batch of dosimeters at 178 sites. The program was terminated on June 22, 1979. A total of 52 of the dosimeters indicated exposures from these dosimeter readings are in agreement with exposure estimates by other agencies for the same time period.

The sensitivity of photographic film to ionizing radiation provided another means of measuring radiation exposure levels. In May, 1979, FDA conducted a retrospective dosimetry program by collecting samples of 35mm film from retail shops at five locations in the vicinity of TMI. These film rolls were known to have been in the shops during the accident period. Analysis showed that none of the films were exposed to above-normal radiation.

FDA staff participated in an interagency assessment of the health impact on the approximately 2 million offsite residents within 50 miles of the TMI plant. The interagency group concluded that the offsite collective dose during the period of March 28 to April 7, 1979 represented minimal risk of additional health effects to the offsite population.

On request by the Environmental Protection Agency, eight FDA health physicists were sent to TMI during the period from late June to mid-July 1980 to assist in monitoring of the slowly released residual Kypton-85 gas from the reactor building.

QUESTION: Are you still involved? To what extent? What is the cost associated with your role in this incident?

ANSWER: Yes, FDA is still involved in the TMI recovery operations. Currently, FDA participates with EPA, the State of Pennsylania, and other Federal agencies in planning the continuing monitoring activities around TMI. According to the Nuclear Regulatory Commission, the TMI recovery operations are expected to continue until the end of the 1980s. NCDRH is not performing any special monitoring activities around TMI at present. However, FDA does monitor and analyze the results of sampling programs for air and water. If needed, FDA is also prepared to reinstate a milk and food sampling program.

In addition to the above activities, FDA reviews and comments on the environmental impact statements relating to the decontamination and waste disposal activities at TMI.

To date, the TMI incident has cost the Agency $500,000.

VETERINARY BIOLOGICS

QUESTION: The conference report on the Fiscal Year 1983 appropriations bill contained language directing APHIS and FDA to develop an analysis of issues involved in the regulation of intrastate veterinary biologics. When can the Committee expect to receive your report on this analysis? Please indicate any progress made to date.

ANSWER: The report was provided to the Committee on April 14, 1983. Selected portions of the report follow:

Veterinary Biologics

Analysis of the Advisability and Justification for a Regulatory Program for Unlicensed Animal Biologic Products

BACKGROUND

The Conference Report on FY 1983 Appropriations for Agriculture, Rural Development, and Related Agencies (Public Law 97-370) directed the FDA and USDA submit a thorough analysis of the advisability and justification of proceeding with a compliance program for the regulation of intrastate veterinary biologics, i.e., veterinary biologics which are not shipped in interstate commerce, thus unlicensed by USDA (Tab A).

The Virus-Serum-Toxin Act (VST Act) enacted by Congress on March 4, 1913, 37 Stat. 832-833, 21 U.S.C. 151-158, confers to the U.S. Department of Agriculture the authority to regulate animal biologics which are imported or shipped in interstate commerce. This does not encompass animal biologics which are shipped for export or manufactured from interstate ingredients but not subsequently shipped interstate. Under the VST Act, animal biologics manufacturing establishments must be licensed. USDA regulations require that each animal biological product must be licensed with USDA. To obtain a product license, the manufacturer must demonstrate that the product is not "worthless, contaminated, dangerous or harmful..." The Federal Food, Drug and Cosmetic Act (FD&C Act), enforced by the Food and Drug Administration, includes provisions requiring that drug products be safe and effective, not misbranded, and be produced in accordance with current good manufacturing practice. Section 902(c) of the FD&C Act, states "Nothing contained in this Act shall be construed as in any way affecting, modifying, repealing or superseding..." the VST Act. (Tab B) Under the FD&C Act, jurisdiction is established if the drug product, or a component used in its manufacture, is shipped in interstate commerce.

Historically, FDA has not routinely regulated unlicensed animal biologics. However, the FDA has instituted regulatory action against animal biologics at the request of and with the assistance of USDA. In 1979, the FDA attempted to assess the scope and effect of unlicensed animal biologics, and to evaluate the conditions of their manufacture by conducting surveillance inspections of several unlicensed manufacturers. One of the first inspections attempted was met with refusal and a temporary restraining order preventing entry by the FDA. Although the District Court held for the plaintiff (a biologics manufacturer not licensed with USDA), the Appellate Court, in an en banc decision, ruled that FDA does have jurisdiction over animal biologics. The Court concluded that animal biologics are drugs within the meaning of Section 201(g) of the FD&C Act. (Tab C) Further, the Court concluded that the restricting clause (Section 902(c)) did not provide exclusion to unlicensed animal biologics since the VST Act did not provide USDA with jurisdiction.* In 1982, the Supreme Court denied certiorari on an appeal for review of the lower Court decision, allowing the Appellate Court decision to stand as ruling in this case. The growing unlicensed segment of the animal biologics industry is structured specifically to avoid USDA licensure and remains unregulated by any federal agency.

DISCUSSION

The conferees assumed that the states have had effective regulatory control over animal biologics not shipped in interstate commerce. However, a questionaire recently sent to regulatory officials in each State to determine the extent of individual State regulation of animal biologics disclosed otherwise. Information obtained from thirty-four (34) States reveals that most do not actively regulate the manufacture and/or marketing of animal biologics. In fact, unlicensed manufacturers are concentrated in States which have no regulatory programs. For example, only eleven (11) of thirty-four (34) states require manufacturers to register with

*Grand Laboratories v. Harris, 644 F.2d 729 (8th Cir. 1981) the State. Although twenty-three (23) of the thirty-four (34) States, have laws governing animal biologics, most of these laws cover only distribution and do not monitor the safety and effectiveness or other qualities of biologics. Only two (2) of the States reporting inspect animal biologics manufacturers within the State, and may conduct testing of the biologic products. (Tab D) Several state laws require that animal biologics not licensed by USDA must be approved by a State official prior to distribution and marketing into and within the State. (Tab E, examples) As this implies, unlicensed animal biologics are illegally shipped in interstate commerce, and this has been documented by both USDA and FDA. A number of subterfuges are used to avoid USDA licensure. Mobile laboratories are moved from State to State or products are moved from a central manufacturing point and only labeled in the States where sales are permitted.

In several instances State officials have become very alarmed at specific unlicensed products or unlicensed manufacturers within their States. One State law clearly limits marketing only to USDA licensed biologics, expressing concern that unlicensed products may "not have been produced under quality control conditions nor having been adequately tested for biological purity and efficacy on animals." This State's Board of Agriculture "finds that an imminent peril to the public welfare requires the adoption of this emergency regulation." (Tab F) In addition to concerns expressed by a number of States, the Canadian government has recently expressed to FDA their deep concern over the exportation of unlicensed animal biologic products to Canada because of unknown quality standards. (Tab G)

Several years ago, USDA sampled and tested 36 serials (lots) of unlicensed animal biologics from 14 manufacturers. Sterility, safety and potency tests were conducted, and an overall failure rate of 56% was reported. Sterility and potency failures were the principal causes of noncompliance. The failure rate for USDA licensed products ranges from 4 to 5 percent when tested in the same laboratory. Although no specific randomization procedures were used, a USDA official concluded that, "Even if biased, the test results demonstrate a significant lack of compliance among many unlicensed firms." Over the past years the FDA was not notified of adverse reactions or immunization failures from unlicensed animal biologics, and the USDA does not maintain a file of complaints involving unlicensed products. Without this information, we can only estimate the threat posed to the nation's animal and human health from the use of unlicensed animal biologics. The purity, safety, potency and effectiveness of unlicensed animal biologics is essentially uncontrolled by state or federal regulatory agencies. The public does not receive the protection it is due.

CONCLUSION

Now that the Federal courts have confirmed that FDA has the authority to regulate unlicensed animal biologics, FDA, with the concurrence of USDA, plans to include the manufacturers of such products within the scope of its current inspection and investigational activities. Resources included in the budget requests for monitoring marketed animal drugs and devices in FY 1983 ($3.4 million) and FY 1984 ($3.6 million) are sufficient to permit FDA to respond to problem situations in the unlicensed animal biologics industry coming to the attention of FDA and USDA. Regulating these unlicensed biological products is expected to have minimal resource demands, approximately one percent of the total funds budgeted for monitoring marketed animal drugs.

We believe that, in the absence of FDA regulation, manufacturers which do not or cannot meet the quality standards required by USDA under the VST Act, and therefore do not license with USDA, would continue to expand. Also, the licensed firms might be forced out of the biologics business, or be discouraged from developing essential high quality biologics. However, given the Grand Laboratories v. Harris decision, the public will not be left at the hands of an unregulated industry in a vitally important animal/public health arena.

SURVEY OF STATES

	Registration of Animal Biologic Manufacturers	Registration of Animal Biologic Marketed in States	Actively Regulate The Manufacture Of Animal Biologics	Routinely Inspect Animal Biologic Manufacturers	Routinely Test Animal Biologics
Alabama	No	No	No	No	No
Alaska	No	No	No	No	No
California	Yes	Yes	Yes	Yes	Yes
Connecticut	No	No	No	No	No
Delaware	Yes[1]	No	No	No	No
Idaho	No	No	No	No	No
Indiana	Yes[2]	Yes[2]	No	No	No
Iowa	No	No	No	No	No
Kansas	No	No	No	No	No
Kentucky	No	No	No	No	No
Louisiana	Yes[1]	Yes[3]	No	?	No
Maine	No	No	No	No	No
Massachusetts	No[4]	No[5]	No	No	No
Michigan	No	Yes[6]	No	No	No
Minnesota	No	No	No	No	No
Missouri	No	No	No	No	No
Montana	Yes	Yes	No	No	No
Nebraska	No	No	No	No	No
Nevada	Yes	No[7]	?	?	?
New Hampshire	No	No	No	No	No
New Jersey	No[7]	No[7]	No	No	No
New York	Yes[1]	No	No	Yes[8]	No
North Carolina	Yes	Yes	Yes	Yes	Yes[9]

Survey of States (continued)

	Registration of Animal Biologic Manufacturers	Registration of Animal Biologic Marketed in States	Actively Regulate The Manufacture Of Animal Biologics	Routinely Inspect Animal Biologic Manufacturers	Routinely Test Animal Biologics
North Dakota	No	Yes	No	No	No
Oklahoma	Yes[1]	No	No	No	No
Oregon	No	No	No	No	No
Pennsylvania	Yes[1]	No	Yes	?	No
Rhode Island	No	No	No	No	No
South Dakota	No	Yes	No	No	No
Tennessee	No	No	No	No	No
Virginia	No	Yes[2]	No	?	No
Washington	Yes	Yes	?	?	?
West Virginia	No	No	No	No	No
Wyoming	No	No	No	No	No

[1] All drug manufacturers must register

[2] Registration if not licensed by USDA

[3] All drug products must be registered

[4] Producers of controlled vaccines must register

[5] Products containing Rx substance must be registered

[6] No registration for biologics used solely by veterinary practitioners

[7] Registration for controlled vaccines

[8] May inspect drug producers every two years

[9] No testing for efficacy

Note: In most cases, product registration primarily involves a fee paid to the State.

SLUC

QUESTION: What is your experience with the SLUC limitation which was imposed in the Fiscal Year 1983 appropriations bill?

ANSWER: The Agency now finds itself in a position where SLUC costs in 1983 will slightly exceed the amount appropriated this year. In previous years when there was not a separate SLUC appropriation, we could have accommodated this small increase fairly easily. However, since SLUC is now a separate appropriation, the Agency no longer has the discretion to handle this small increase. We have discussed this situation with PHS and the Department and are currently assessing 1983 SLUC needs and alternative sources of funds to cover this deficit; it is possible that an appropriation transfer will be necessary to address this situation.

There are several reasons for this shortfall. First, the Revolving Fund for Certification no longer pays for space that was formerly occupied by employees in the Antibiotic Certification. program, since that program was terminated at the end of 1982. In 1982, $438,000 was paid from the Revolving Fund for Antibiotic Certification for this space. Also, the 1983 SLUC appropriation was frozen at the 1982 level which FDA estimated at $18,942,000 in June 1982. The actual amount of SLUC paid in 1982 from Salaries and Expenses turned out to be $19,032,000 or $90,000 higher than the Agency's estimate. In addition, FDA was obligated to shift a resident post in the field from a sub-standard location to one where rental rates are considerably higher. We do plan savings that will partially offset these costs--the Agency has closed down its laboratory at 501 First Street and has transferred these employees to FB-8, and personnel reductions will make it possible for FDA to surrender some of its space in the Parklawn Building.

INSPECTION OF FOOD ESTABLISHMENTS

QUESTION: For the record, please supply information on the frequency with which you inspect food establishments now, and compare this with your performance five years ago.

ANSWER: The total inventory of food establishments has remained about constant at 79,000. During the period of 1977 through 1979, we inspected about 13,000 different establishments each year. On an average basis, this would equate to an inspection of each establishment once every six years. Of course, we inspect some establishments, such as low-acid canned food plants, much more often than this, while many establishments are visited much less often.

In 1982, we inspected about 15,000 different food establishments for an average cycle of once every 5.3 years. Thus, we have increased the number of inspections despite a reduction in our resources over this period. The Agency has made a number of changes to reduce the time spent on each inspection. While there have been several administrative changes that have improved productivity, one of the more fundamental changes has been that investigators spend less time in the establishment and in writing their reports when they find no evidence of violation of the law. In essence, in this way we are able to keep up the frequency of our inspections, which we believe is a basic deterrent to violation of the law, and at the same time continue to devote our resources where there is the greatest risk to the consumer.

PATIENT PACKAGE INSERTS

QUESTION: Would you please bring the Committee up to date on FDA's patient package insert program? Was the PPI pilot program rescinded last year?

ANSWER: On September 7, 1982, through the use of notice and comment rulemaking procedures, FDA revoked the PPI regulation that had been issued in September 1980. The revocation was justified on several grounds, chief of which are the following: (1) the proposed pilot program (under which 10 PPIs were to be tested for a 3-year period) was thought not likely to provide definitive results on the value of PPIs; (2) new efforts to provide consumers with drug information were developing in the private sector, and were considered likely to be effective in providing this information; (3) mandatory PPIs were heavily opposed by practitioners, whose cooperation was viewed as important to the success of PPI program.

At the time FDA revoked the PPI rule, it also announced the formation of an internal Committee on Patient Education (COPE) that would act as a coordinator of patient education activities within FDA and as a catalyst to activities outside the agency. The committee would also examine ways to evaluate patient education systems and serve as a clearing house for interested parties on available drug information.

Patient package inserts continue to be required for some prescription drugs, such as oral contraceptives and estrogens for menopausal use. Our patient information program, however, is currently focused on the broader issue of getting appropriate drug information to consumers through a variety of means.

QUESTION: Are any activities or experiments being conducted with patient package inserts?

As a result of our revocation of the PPI pilot program, we are not conducting any research or evaluation of patient package inserts per se. We have, however, conducted telephone surveys of patients, physicians and pharmacists to help measure changes over time in the way consumers obtain prescription drug information. These surveys will be repeated at regular intervals to determine trends and information dissemination.

There have also been several developing private initiatives in the area of patient education on drugs. A National Counsel on Patient Information and Education was organized with the financial support of one million dollars from the Ciba-Geigy Pharmaceutical Company. FDA is a liaison member of this organization, which is to be a central focus for private sector initiatives concerning patient information.

The American Medical Association has begun a program to make Patient Medication Information leaflets (PMIs) available to physicians to be provided to patients at the time of prescribing. The American Society of Hospital Pharmacists, the United States Pharmacopeia and the American Association of Retired Persons have each developed patient information and education programs that utilize leaflets, booklets and other publications that describe specific drug usage. With respect to the American Association of Retired Persons, we have provided special assistance by reviewing the leaflets which that association makes available through its mail order pharmacy service.

CAFFEINE

QUESTION: Recently, the question of safety and functionality of caffeine contained in soft drinks and certain non-beverage foods has been brought to the attention of the consumer. Would you please discuss the background of this issue and advise us of the current status of FDA's work in this regard.

ANSWER: Caffeine is generally recognized as safe (GRAS) for use as an added ingredient in soda water beverages at levels up to 0.02 percent by weight. Questions about the safety of this use were raised in 1980, principally based upon an FDA gavage study indicating that caffeine caused missing toes and delayed bone development in newborn rats. In October 1980, FDA published a proposed rule to remove caffeine from the GRAS list and to interim list caffeine as a food additive pending additional studies to resolve this and other questions on its safety and functionality. Questions on functionality were associated with whether caffeine is added as a flavor ingredient or as a stimulant in soda water beverages. Several comments were received in response to the proposal alleging that caffeine has been prior-sanctioned and therefore is exempt from the food additive provisions of the Food, Drug, and Cosmetic Act.

A large number of studies were also initiated shortly after publication of the October 1980 proposal. These studies are directed at resolving the questions raised in the proposal. Concurrent with our proposal, the agency initiated an educational program directed at informing consumers of the caffeine content of food and drugs and recommending that pregnant women avoid caffeine.

The Agency has been receiving results of ongoing and recently completed studies that have been sponsored by the industry or government. The studies have begun to provide answers on the questions associated with the safe use of caffeine in soda water, but the data provided at this time are insufficient for FDA to modify its concern regarding consumption of caffeine by pregnant women. The Agency is continuing to consider the comments on the proposal as well as the reports of the results of the various studies with caffeine in the development of a regulatory approach to the use of caffeine in soda water.

MILK CONTAMINATION IN HAWAII

QUESTION: What was the extent of FDA involvement in the recall of milk for residues of the pesticide, hepatachlor, in the State of Hawaii?

ANSWER: In March 1982, the FDA San Francisco laboratory found heptachlor residues in samples of milkfat which had been sent to our laboratory by the Hawaii Department of Health (DOH) for confirmatory analysis. The State DOH laboratory was then notified of our results. On March 17, the chief of FDA's Resident Post in Honolulu was asked to attend a meeting with State officials to discuss the heptachlor problem, as virtually all the milk tested to date by the State had been found to contain residues of the pesticide at levels above the FDA and State action level of 0.3 parts per million (fat basis). It was apparent that recalls might be necessary. The day after this meeting, the State initiated the first recall of milk. This and subsequent recalls of milk and milk products were initiated and carried out by the State, as the heptachlor/milk problem involved little interstate commerce.

FDA's San Francisco District notified FDA headquarters of this contamination problem in mid-March, and the agency was soon faced with answering numerous technical and policy questions from the State and the dairy industry. On April 13, the FDA Associate Commissioner for Regulatory Affairs notified the State Department of Health that FDA had asked the Environmental Protection Agency to evaluate FDA's 0.3 ppm action level, which the Hawaii DOH and Department of Agriculture were using to control the marketing of contaminated milk. FDA recognized that a regulation existed for a zero tolerance for heptachlor residues in milk; however, in the mid 60s FDA had adopted a finite regulatory limit of 0.3 ppm (fat basis), based primarily on our analytical capability at that time to reliably detect and measure these residues. Because of the extent of the milk contamination problem in Hawaii and the fact that information on the toxicity of heptachlor had changed since the 1960s, FDA felt that EPA should evaluate the adequacy of the FDA enforcement limit to protect the public health. Until EPA's evaluation was completed, FDA recommended that the State should continue to enforce the 0.3 ppm limit and prohibit raw milk contaminated with heptachlor residues above this level from being processed into low fat milk products.

On June 24, 1982, FDA again wrote the State to advise that EPA had recommended and FDA had agreed that the 0.3 ppm action level be maintained, based on current information which indicated that human exposure to heptachlor residues in Hawaii was of limited duration, and as such, residue levels up to 0.3 ppm in milkfat did not pose a hazard to human health. We reiterated that raw milk adulterated with residues above the action level should not be used to manufacture low fat milk products. The State continued to comply with our recommendation.

Because new information soon came to light which indicated a much longer duration of exposure to heptachlor contaminated milk in Hawaii than had been previously estimated, the EPA conducted a reassessment of the 0.3 ppm action level, taking the longer exposure into account. After EPA and FDA officials visited Hawaii in August to discuss with the State the need for and possible effects of reassessment, on September 10, EPA advised FDA that the action level for heptachlor residues in the fat of milk should be lowered to 0.1 ppm to provide adequate safety margins for the health effects of concern, particularly for infants and young children. FDA concurred with the EPA recommendation and adopted the new action level to regulate milk and milk products moving in interstate commerce. On September 21 FDA notified the Hawaii DOH of our decision, and the state immediately adopted the new action level. FDA announced the new action level in the Federal Register of October 26, 1982 and public comments were invited.

Throughout the entire heptachlor incident in Hawaii, FDA worked with the State laboratory in providing technical information, review of laboratory procedures, and analyzing split samples to assure valid analytical findings. Additionally, FDA sampled the little milk subject to its jurisdiction, i.e., samples collected on interstate carriers, such as airlines. FDA and the State are still working together to improve State analytical capabilities in the pesticide area. For example, FDA recently evaluated some changes made in the State DOH laboratory as a result of the heptachlor situation and set up a training program for DOH chemists in FDA's San Francisco laboratory. Additionally, and as a result of the heptachlor situation, FDA will be collecting a market basket of food in Hawaii to estimate total dietary exposure to chemical residues. Under FDA's Total Diet Study, 234 individual food items (composing a market basket) are analyzed for pesticide residues. FDA has also increased its monitoring of fresh produce grown in Hawaii for pesticide residues.

In conclusion, although FDA did not have any direct involvement in the State-directed recalls of milk and milk products in Hawaii, the Agency actively participated with the State in responding to the heptachlor/milk contamination incident.

SULFITING AGENTS

QUESTION: Recent public concern, based on published findings in medical and scientific studies, has alerted your Agency to the widespread and potentially dangerous uses of sulfiting agents throughout the food and drug supply, with specific reference to sodium bisulfite and sulfur dioxide. It is my understanding that at least 450,000 asthmatics are sensitive to the life-threatening hazards associated with these chemicals as well as an unknown percentage of the non-asthmatic public. Many of the sulfite attacks have taken place in restaurants and are primarily associated with a reaction to sulfite-treated salads and vegetables at salad bars. As a result, I understand the National Restaurant Association has recommended to its members that they not use sulfiting agents in their salads pending further FDA action. In light of all of the above, what additional measures does the FDA plan to take to respond to this growing public health concern?

ANSWER: The Agency has initiated a number of steps in response to the reports of sensitivity to sulfiting agents. First, because many of the reported sulfite-related reactions have taken place in restaurants, where food is traditionally unlabeled, FDA issued a Model Food Code interpretation to the states on March 3, 1983. This interpretation would require retail establishments that treat food with sulfiting agents to inform the consumer of this use either by signs or notices on the menu. Secondly, the Agency is tabulating and, where appropriate, following up on reported adverse reactions to obtain as complete a picture as possible of the circumstances surrounding the adverse reactions.

In addition, because one of the recurring problems found by the Agency in regulating food ingredients is that presented by individuals who are sensitive to specific substances, the Agency is forming a panel of allergy experts to evaluate the significance of adverse reactions to food ingredients, including sulfiting agents, by both sensitive consumers and the general population. We will be seeking their advice on how to best address the safety concerns raised by individual sensitivities to substances that are approved for use in food.

Finally, the Agency is evaluating what additional action on food uses of sulfiting agents should be taken, in light of the many new uses and adverse reactions that were reported as comments on the July 1982 proposal to affirm sulfiting agents as generally recognized as safe.

QUESTION: I have also learned that sulfiting agents are used as preservatives in hundreds of drugs. They are even used in drugs designed to treat asthma, yet asthmatics are most sensitive to the effects of sulfiting agents. There are reports of asthmatics having a life-threatening reaction to sulfite-treated food and then having a second reaction to the drugs administered to treat the attack. Would it be a sensible and logical step for FDA to simply ban the use of sulfiting agents in asthma drugs?

ANSWER: Sulfites are used in drugs as preservatives, or more specifically, as antioxidants, to help prevent breakdown of the product. They cannot simply be removed from the drugs without potentially affecting drug stability. Whether they can be replaced with other antioxidants certainly needs to be considered carefully, but there is no obvious chemical agent that could substitute in all cases. Also, any such changes made in the formulation require stability testing to determine that the new formulation is in fact stable for the time indicated on the labeling. We are concerned about the sulfite content of drugs used to treat asthma and intend to encourage manufacturers of these products to look for suitable substitutes, but it is not clear that such substitutes are currently available for all situations.

We intend to meet with representatives from the drug manufacturers' organizations to discuss our concerns and possible solutions to the problem. We are also planning to present this issue to a meeting of the Pulmonary-Allergy Drugs Advisory Committee on June 3, 1983 to discuss the information available on the incidence of sulfite sensitivities, the seriousness of the problem, and possible solutions.

DIET PILLS

QUESTION: You published a notice of proposed rulemaking for over the counter weight control products in February, 1982. It is now more than one year later. I understand that there have been many adverse reactions to certain weight control products containing phenylpropanolamine (ppa). This chemical, as I understand it, is strongly linked to hypertension. Do you have a timetable for a proposed rule which will protect the public from these harmful products?

ANSWER: When the panel report on OTC weight control drug products was published in 1982, FDA in the preamble discussed the current studies on phenylpropanolamine and stated that it would not at that time allow OTC marketing of the higher dosage levels recommended by the advisory panel. The Agency requested comments and information on a suitable safe dosage level of the ingredient. The data submitted on phenylpropanolamine are currently being reviewed by Agency scientists. Recent data on the safety of this ingredient will be addressed in the proposed rule for OTC nasal decongestant drug products, which is scheduled for completion in 1983. The weight control rulemaking includes many other ingredients in addition to phenylpropanolamine, and considerable time will be required to complete the review of all the data. The proposed rule for OTC weight control drug products is tentatively scheduled for completion in 1984. However, if a serious threat to the public health from an OTC drug ingredient is demonstrated, the Agency may act at any time to protect the public health.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

DELANEY CLAUSE

QUESTION: The report submitted by the Food and Drug Administration to the House Appropriations Committee on the Delaney Clause in 1974 stated that, since 1960, FDA has taken the position that any animal carcinogen is a poisonous or deleterious substance that may render food injurious to health and thus must be banned under Section 402(a)(1) of the Federal Food, Drug, and Cosmetic Act. That report points out that FDA agreed to the Delaney Clause in 1958 precisely because it was regarded as redundant and that all but two of the carcinogens that have been banned since 1950 have been banned under Section 402(a)(1) rather than under the Delaney Clause. This same position has been reiterated by many FDA officials over the years and most recently in testimony before the House and Senate during the saccharin controversy.

Does the present Administration still hold to this position, or does the Administration now believe that there is some level of insignificant or de minimis risk of cancer that would not violate Section 402(a)(1)?

ANSWER: The report referred to--Study of the Delaney Clause and Other Anticancer Clauses--does not take the position that animal carcinogens are per se poisonous and deleterious substances that "may render" a food injurious to health within the meaning of section 402(a)(1). The report refers primarily to several FDA decisions banning carcinogens at a time prior to enactment of the Delaney Clause. These decisions were necessarily based on section 402(a)(1). However, the report provides no information concerning the levels of carcinogenic substances involved in those regulatory decisions, or any other details, that would justify the generalization that FDA regarded any amount of a carcinogen as subject to prohibition under section 402(a)(1) at the times in question. Moreover, Commissioner Donald Kennedy's May 9, 1979 Congressional testimony on saccharin does not state that an animal carcinogen is a poisonous and deleterious substance that must be banned under section 402(a)(1). There is no reference in his testimony to section 402(a)(1).

At the present time, FDA does not interpret section 402(a)(1) as an absolute prohibition of added carcinogenic substances.

Obviously, if a carcinogen were present as an added substance in sufficient quantities to meet the "may render injurious" standard of section 402(a)(1), then the provision would apply; otherwise it would not. It should be noted in this regard that the 1972 lawsuit brought against sassafras bark as an ingredient in tea did not rely on section 402(a)(1), but on the food additive provisions of the law.

With respect to the general safety clause of the Food Additives Amendment and the Color Additive Amendments, FDA originally took the position that the Delaney Clause was merely a restatement of the general safety clause as it would apply to carcinogens. At the time those laws were passed, FDA did not anticipate developments that would enable scientists to detect amounts of carcinogens so small they could be said to be safe. Today, FDA has concluded that small amounts of carcinogens presenting very low upper bound risks can be regarded as safe, and, in cases where the Delaney Clause does not apply, the agency has approved additives containing small amounts of carcinogenic impurities. Thus, FDA no longer regards the Delaney Clause as redundant and believes that very low carcinogenic risks can be approved under the general safety clause of the food and color additive provisions of the law.

To the extent that the general safety clause is similar to the safety standard in section 402(a)(1), the foregoing demonstrates that FDA does not regard section 402(a)(1) as a _per se_ prohibition against added carcinogenic substances. We reiterate, however, that there is no sound basis for the position that section 402(a)(1) was ever so regarded by FDA and the 1974 Report does not support that generalization.

QUESTION: Section 402(a)(1) prohibits any added poisonous or deleterious substance in food. Section 409(c)(1)(A) requires that a food additive be proved safe. The Supreme Court has interpreted Section 402(a)(1) to prohibit a food substance that presents a reasonable possibility of harm. Congressional report language has interpreted Section 409(c)(1)(A) to require a reasonable certainty of no harm.

Other than the difference in the burden of proof imposed by these two general safety provisions, does the present Administration believe that there is a substantive difference between them? Put another way, could a substance that does not present a reasonable certainty of no harm nonetheless be determined not to present a reasonable possibility of harm? If the Administration believes there is a difference, under what circumstances would a substance violate one safety standard but not the other (again putting aside the different burdens of proof)?

ANSWER: The Supreme Court in _United States_ v. _Lexington Mill & Elevator Co_. held that a substance is not "a poisonous and deleterious substance" under the general adulteration provisions of section 402(a)(1) "[i]f it cannot by any possibility, when the facts are reasonably considered, injure the health of any consumer..." Based on the legislative history of the Food Additive Amendment of 1958, the term "safe," when applied to the general safety provisions of section 409, has been construed to mean a "reasonable certainty of no harm." FDA does not consider either of these as "zero risk" standards.

The allocation of the burden of proof for these two safety standards, however, results in a significant difference in their application. Under section 402(a)(1), the Agency bears the burden of proving that a substance may be injurious to health. Thus, if the evidence is lacking, FDA cannot take action under section 402(a)(1). The burden of proving safety under section 409, however, is on the sponsor of a substance. If the evidence is lacking, FDA may not approve a food additive petition for a substance. In addition, the Delaney Anti-Cancer provisions of 409(C)(3)(A) state that "no food additive shall be deemed to be safe if it is found to induce cancer when ingested by man or animal..."

Because of the difference in the burden of proof, these standards have never been regarded as interchangeable and have not been applied under the same circumstances. The agency therefore does not have any actual experience upon which to answer this question. However, because the data upon which such safety decisions are based often lacks certainty, the burden of proof usually plays a large role in each decision. For this reason, we cannot isolate these two standards and predict how they would be applied without the burden of proof.

We emphasize, however, that we do not believe that either the general safety standard of section 409 as it applies to issues other than carcinogenicity or the general adulteration language in section 402(a)(1) needs to be changed. Although FDA has prohibited carcinogens covered by Delaney, FDA has not been applying the general safety standard in section 409 to prohibit the marketing of substances presenting only insignificant risks. Similarly, FDA does not take action under section 402(a)(1) against substances presenting only an insignificant risk; moreover, we do not believe that there is a widespread belief that the agency interprets that provision as prohibiting the presence of substances presenting extremely small risks.

FOOD ADDITIVES

QUESTION: FDA Commissioner Edwards testified in 1972 before the Senate Select Committee on Nutrition and Human Needs that the term "food additive" includes all raw agricultural commodities as well as fabricated food and thus that the agricultural components of beef stew (such as carrots and meat) must either be classified as GRAS or be subject to a food additive regulation. The Commissioner stated that, under modern methods of processing and packaging, virtually the entire food supply must be classified either as GRAS or as regulated food additives.

Does this represent the present Administration's position, or has the Administration changed this position?

ANSWER: A raw agricultural commodity that is used as a component of a food such as beef stew would fall within the literal meaning of the first part of the definition of a food additive. Agricultural commodities such as potatoes and carrots are, however, generally recognized as safe (GRAS) and thus meet the GRAS exception in the food additive definition.

As a practical matter, the agency has not applied the food additive provisions to foods such as potatoes or carrots. Moreover, when these foods are eaten singly, they are merely food, and do not fall within the food additive definition.

QUESTION: In its Federal Register notices banning natural sassafras bark as an unapproved food additive in 1974 and 1976, FDA reiterated its position that natural food constituents are subject to the Food Additives Amendment. Because sassafras bark was being used for its flavoring constituent, safrole, FDA determined that sassafras bark was an unapproved food additive and thus unlawful.

Does the present Administration adhere to the position it enunciated in those Federal Register notices relating to sassafras bark? If the Administration has repudiated that position, does it intend to revoke the current regulation banning sassafras bark?

ANSWER: The critical finding with regard to sassafras bark that FDA made when deciding that sassafras bark was an unsafe food additive, was that the essential purpose of using sassafras bark was to extract the flavoring constituent, safrole, which is a carcinogen, and add it to water. FDA has not, at this time, changed its position relative to that specific fact situation, but the agency has not extended the reasoning of the safrole decision to any other situation.

QUESTION: In 1960, FDA published an order banning the use of safrole as a flavor substance on the ground that it was carcinogenic in test animals. In its 1974 Federal Register notice, FDA said that the Agency was unable to distinguish between safrole alone or safrole derived from sassafras bark.

If the present Administration intends to revoke its current ban against sassafras bark, and thus allow safrole to be added to food products through the use of sassafras bark, does it also intend to permit the same amount of safrole to be added directly? Is there any public health basis for allowing a given quantity of safrole to be added to the food supply indirectly through the use of sassafras bark but not directly through the use of safrole itself?

ANSWER: If the Agency were to change its position with regard to sassafras bark, it would do so on one of two grounds. It could determine that the previous safety evaluation of safrole was incorrect. If that were the basis for the decision, there would be no reason to distinguish between safrole added by bark as opposed to other sources of safrole directly added as a flavoring ingredient. In other words, if safrole were found to be safe within the meaning of section 409 of the Act, we would not be concerned about the source of safrole except to the extent that the source might involve other substances of concern.

The other basis for reaching a different conclusion on sassafras bark would be a reevaluation of the Agency's determination that the principal purpose of using sassafras bark was to extract the safrole. If that conclusion were changed after reevaluation, then it is possible that FDA could permit sassafras bark for use in making herb tea, while at the same time prohibiting the use of safrole as a flavoring ingredient. A position allowing the use of sassafras bark to make tea would necessarily involve a conclusion that the bark falls into a different category of food substance than the one that led to the prohibition. Assuming that sassafras bark met the requirements applicable to that different category, it could be marketed even though it contained a carcinogenic substance. If this hypothetical situation existed, the different treatment accorded to safrole depending on its form--as an independent ingredient or as a component of sassafras bark--would be the direct consequence of the different regulatory standards provided in the statute for different categories of food substances. From a strictly scientific point of view, the health problem posed by safrole would be the same irrespective of the category in which it was regulated. Different treatment of different food categories, however, is presumed to reflect a legislative judgment based on the social importance and other attributes of the food substances in the different categories. Section 402(a)(1) of the statute is an example of this disparate treatment, subjecting a naturally occurring component of a food to a lesser safety test than would be applied to the same component added as a separate ingredient.

QUESTION: In the Natick Paperboard case, FDA took the position that PCBs migrating from packaging into food are food additives, and the court agreed with that position. In the Ewig Bros. and Cathy Rose cases, FDA took the position that DDT contamination in fish and lead contamination in pottery are food additives, and the courts also agreed with that position. In its constituent policy, FDA appears to take the position that contaminants migrating from the environment or packaging into food are not food additives.

Does the present Administration adhere to the position taken by FDA and confirmed by the courts in those three cases or has it repudiated that position?

ANSWER: FDA's position in those cases was that the substances in question were illegal food additives because the levels present in food were unsafe and exceeded the tolerance for environmental contaminants promulgated under section 406 of the Act, as in the Natick case, or FDA's action levels for environmental contaminants, as in the case of Ewig, or that they were unsafe substances migrating to food from a food additive and the entire food additive was therefore unsafe under the general safety clause of section 409, as in the Cathy Rose case. FDA's tentative position announced in the ANPR on the Policy for Regulating Carcinogenic Chemicals in Food and Color Additives is consistent with the statutory interpretation relied on in those cases. The constituents theory focuses on the safety of the additive as a whole. In the cases cited, it was the additive, whether PCBs, lead or DDT that was unsafe. The constituents theory recognizes that food additives are, for the most part, mixtures of chemicals, and it is the mixture that is tested for safety in a feeding study.

Although FDA has tentatively suggested that a migrant from food packaging that gets into food is not "the additive" within the meaning of the Delaney Anti-Cancer Clause of Section 409 of the Act, the Agency continues to view the migrant from food packaging as being at least a part of a food additive with the meaning of Section 201(s) of the Act and within the meaning of the general safety provisions of Section 409 of the Act. Consequently, the position taken in the constituents policy by FDA is not opposite to previous positions taken by the Agency.

Under the constituents theory FDA would not permit an additive to be approved that contained levels of any chemical that rendered the additive itself unsafe. The constituents theory is simply one of a number of possible legal approaches to determine whether the Delaney Clause or the general safety clause of section 409 of the Act ought to apply in a particular circumstance.

CONSTITUENTS POLICY

QUESTION: Under the FDA constituents policy, it appears that a substance which is an unwanted contaminant in the food supply would be permitted to remain in the food supply if it presents an insignificant risk, but a substance which performs a useful function in the food supply would be banned even if it presents a smaller risk than the contaminant.

Does the present Administration favor banning substances on the basis of their function rather than on the basis of their risk? What are the scientific and health basis for banning a smaller risk but permitting a larger risk? Why should a useless contaminant be permitted but a useful component be prohibited if each presents the same level of risk and the same economic impact on society?

ANSWER: The constituents policy applies to food and color additives, which are subject to the statutory proscriptions of the Delaney Clause. In the Advance Notice of Proposed Rulemaking for regulating carcinogenic chemicals in additives, the agency stated that, for the purpose of determining when the Delaney Clause is triggered, there is a sound legal basis for distinguishing between non-functional impurities that are constituents of an additive and the additive as a whole. FDA also stated that if a substance performs a function in the final food, and has been intentionally added, it is a food additive.

The Delaney Clause forbids approval of a food additive that causes cancer when ingested. The agency recognizes that in certain cases the Delaney Clause may preclude approval of a carcinogenic additive even though the risk presented by that additive is very small, possibly smaller than risks deemed acceptable for impurities under the constituents policy. The preclusion of small risks by the Delaney Clause was contemplated by Congress, however, in its decision to include the Delaney Clause in the Act.

Under the constituents theory, an additive, including all its constituents, must meet the general safety requirements of the Act. There must be a reasonable certainty of no harm from the use of the additive. Because the safety judgment for a carcinogenic chemical that is an impurity in a food or color additive that has been shown not to cause cancer is usually based upon risk assessment methods, any carcinogenic constituent could ordinarily be present only in tiny amounts in the additive. Such amounts would be generally below a level capable of producing a functional effect in the food.

QUESTION: On February 1, 1983, the National Toxicology Program announced its determination that allyl isothiocyanate is carcinogenic in test animals. The Federal Register announcement states that this substance is the "major component" of mustard.

Does the present Administration intend to ban mustard? If this matter falls within the constituents policy, has a quantitative risk assessment of allyl isothiocyanate in mustard been conducted to determine whether the risk presented is significant or insignificant? If this matter has not yet been reviewed, why has it not been given high priority and when will a regulatory decision be made? Does it make any difference, from a health standpoint, that allyl isothiocyanate is found naturally in mustard rather than is added from a synthetic source? Is the Administration considering banning allyl isothiocyanage when added to food from synthetic sources but permitting the continued marketing of mustard containing the same substance?

ANSWER: The National Toxicology Program--NTP--tested synthetic allyl isothiocyanate. Allyl isothiocyanate is present in brown mustard seeds at a level of about 1 percent but it is not present in yellow mustard seeds. It is also the major component--more than 90 percent--of the essential oil of brown mustard. Synthetic allyl isothiocyanate and the essential oil of brown mustard are both used as flavoring ingredients, together with brown and yellow mustard seeds and other ingredients, to make commercial brown and yellow prepared mustards.

Although it appears as though allyl isothiocyanate is a carcinogen, because FDA is in the process of reviewing the carcinogenicity bioassay for the compound, the agency is not able at this time to confirm the NTP's finding. If allyl isothiocyanate is found to be a carcinogen, it is likely that the essential oil of brown mustard would, if tested, also be found to be a carcinogen. However, even if the compound is a carcinogen, it is unclear whether brown mustard seeds, which contain only one percent allyl isothiocyanate, would, if tested, be found to be a carcinogen. We therefore do not at this time intend to prohibit the food use of allyl isothiocyanate, oil of mustard, or brown mustard seeds, nor have we conducted a risk assessment on any of these substances. The safety of brown mustard seeds is not of concern to us at this time, but the safety issue involving allyl isothiocyanate and brown mustard oil has been given a medium priority and a regulatory decision will be made in a year or so.

We do not believe that there is a legal or scientific basis for distinguishing between synthetic or natural allyl isothiocyanate when used as an added ingredient unless there is a significant difference in the composition of these substances. If the allyl isothiocyanate were found to be a carcinogen, the agency could ban both allyl isothiocyanate and oil of brown mustard, which consists of 90 percent allyl isothiocyanate.

If brown mustard seeds are not carcinogenic, there would be a reason for making a legal distinction between mustard containing naturally occurring allyl isothiocyanate and either synthetic or natural isothiocyanate used as added food ingredients. The latter are classified as food additives and are thus subject to the safety requirements of the food additive provisions of the law, including the Delaney Clause. Allyl isothiocyanate in mustard seeds is not a food additive, but, instead, a naturally occurring food component. It would not be subject to the food additive provisions of the law, but is subject to section 402(a)(1). This difference in treatment is a result of a legislative choice. There is nothing anomalous, however, about permitting a food that contains a substance that would itself be banned if extracted from the food for addition to other foods. Many foods contain small amounts of toxic substances that could be poisonous if they were distilled from the food and introduced into other foods.

QUESTION: In April 1979, the results of a scientific study were presented at the American Chemical Society meeting showing that black pepper is carcinogenic in test animals.

Has a quantitative risk assessment been conducted to determine whether black pepper represents a significant or insignificant risk? When ground up and added to food, is black pepper a food additive? Has a determination been made about proper regulatory action as a result of this study?

ANSWER: The study on black pepper presented at the American Chemical Society meeting in April 1979 has many deficiencies and was widely criticized by many experts in the toxicology field. The author also failed to publish a final report in the scientific literature. Consequently, no credible evidence has been presented at this time to show that black pepper is carcinogenic. The FDA has not done a quantitative risk assessment because we know of no risk associated with the use of black pepper as a spice.

QUESTION: When cyclamate was banned in 1969, FDA took the position that any substance found to be carcinogenic in test animals cannot be "generally recognized as safe" (GRAS). FDA representatives have since stated this position on numerous occasions.

Does the present Administration continue to adhere to this position? Would this position apply to the components of the food supply that are derived from natural sources (such as mustard and black pepper) as well as to synthetic substances?

ANSWER: FDA has not at this time changed its position that any substance found to be carcinogenic in test animals cannot be generally recognized as safe. The same policy would apply whether the substance is natural or synthetic. This position relates only to the substance that is the additive, not to each of its components. It is possible for a food to be generally recognized as safe, for example, even though it contains a carcinogenic component, so long as the food itself is not a carcinogen or otherwise presents significant safety issues.

SPICES

QUESTION: In April 1979, Dr. Sanford Miller, Director of the FDA Bureau of Foods, stated that a substantial portion of all natural spices will probably be determined to be carcinogenic or teratogenic in test animals.

Does the present Administration still adhere to this view? Since most of these spices are now permitted in the food supply on the determination that they are GRAS, would they lose their GRAS status upon such a finding? Would any spice found to be carcinogenic or terateogenic in test animals be banned? Would a quantitative risk assessment be conducted, and relied upon, in considering the ban of any such spice found to be carcinogenic in test animals, or would such a ban be required under current law even if the risk was determined to be insignificant?

ANSWER: FDA has consistently taken the position that GRAS substances found to cause cancer would lose their GRAS status. Based on our current knowledge, we would expect that a substantial portion of all natural spices would probably contain components that would be reported as carcinogens or teratogens in test animals. This does not mean, however, that all spices are themselves carcinogens.

Under the current law, FDA may remove from GRAS status carcinogenic spices and interim-list them as food additives pending additional testing, or ban them as unsafe food additives. In the case of teratogens--which have thresholds and are not prohibited by the Delaney Clause--FDA has the additional alternative of requiring a warning statement about birth defects if the risk appears to be real.

FDA has never used risk assessment procedures to evaluate a GRAS substance that was found to cause cancer because of the belief that any such substance would lose its GRAS status and become a food additive within the meaning of Section 201(s) of the Act, and also unsafe within the meaning of Section 409 of the Act. In addition, FDA would expect that most directly added food ingredients that are potent enough to cause cancer in the standard 100-animal test would not be able to pass a risk assessment test.

Because we believe that spices are generally regarded by the public as being comparable to basic foods, we believe that they should be included in a separate category for traditional foods that would not be treated as food additives. A recommendation to create a traditional foods category has been made by the Sub-Cabinet Council Working Group on Food Safety.

QUESTION: In October 1979, FDA stated in a Federal Register notice that many, and perhaps most, foods in a supermarket contain an inherent carcinogenic ingredient or a carcinogenic contaminant.

Does the present Administration continue to adhere to that view? Have quantitative risk assessments been conducted to determine whether those constituents present a significant or an insignificant risk? If such quantitative risk assessments have not yet been conducted, does the present Administration plan to do them?

ANSWER: It is commonly believed that there is a very low background level of carcinogens present throughout our environment. Although it is possibly true that many foods contain carcinogenic components, the agency does not believe there is a significant health risk from most carcinogenic components that might be present in foods. Such components are ordinarily present in very minor amounts in the diet. There is also no evidence to indicate that these compounds contribute significantly to the risk of cancer in humans. Although the agency monitors the levels of certain of these compounds in the daily diet, we believe it would serve no useful purpose at this time to perform quantitative risk assessment on all carcinogenic compounds known or expected to be present in food.

GAVAGE STUDIES

QUESTION: In its report to the House Appropriations Committee on the Delaney Clause in 1974, FDA stated that a study conducted by gavage (intubation) is not an "ingestion" study with the meaning of the Delaney Clause and thus would not automatically result in application of the Delaney Clause.

Does the present Administration continue to adhere to this position?

ANSWER: The agency's present position on Gavage studies differs from the 1974 Report. Whether a particular gavage study has been properly done is always a question to be evaluated in each situation. The Agency however, considers gavage studies to be ingestion studies that may properly be considered in evaluating the safety of food additives, and would not rule out considering a gavage study indicating that a substance caused cancer.

QUESTION: In the 1979 Monsanto decision, the court stated that FDA has discretion under the current law to ignore a de minimis situation that clearly presents no public health or safety concern. In the preamble to its 1977 SOM regulation, FDA stated that a one in a one million individual lifetime upper bound risk of cancer can properly be considered of insignificant public health concern and represents no significant carcinogenic burden in the total diet of man. FDA also stated in the preamble to its 1979 SOM proposal and in its 1981 approval of lead acetate that this level of risk imposes no additional risk of cancer to the public and no significant health or safety concerns. Most recently, in its constituents policy, FDA said that it is confident that it possess the capacity, through the use of extrapolation procedures, to assess adequately the upper level of risk presented by a carcinogenic chemical.

Does the present Administration adhere to the position that a one in one million individual lifetime upper bound risk of cancer imposes no additional risk of cancer to the public? Now that the courts have stated that FDA can ignore a de minimis or insignificant risk under the law, will this Administration adopt a broad de minimis exclusion for insignificant cancer risks under current law? If the present Administration does not intend to do this, is it because of legal or policy reasons? How can an anticancer provision of the law be interpreted to prohibit a substance that, in FDA's own words, imposes no additional risk of cancer to the public?

ANSWER: The Monsanto observation needs some clarification. The Court in Monsanto was faced with deciding whether there was sufficient evidence that a low level migrant from a food packaging material got into food and hence, whether the packaging material was a food additive within the meaning of section 201(s) of the Act. The Court held that theoretical extrapolation based on the second law of thermodynamics which predict that there will always be some migration do not constitute a sufficient basis for FDA to assert that a food packaging material is a food additive within the meaning of the Act, without some corroborative evidence that migration does occur. In reaching its conclusion the Court stated that if the level of migration into food of a particular chemical is so negligible as to present no public health or safety concerns, the Commissioner could decline to classify that chemical as a food additive. The Court emphasized that this de minimis level of migration should be based on consideration of public health and that the Agency could assure a wide margin of safety in determining what was de minimis migration.

With regard to sensitivity of method observation, it should be noted that the Delaney Clause contains a special provision for carcinogenic substances administered to food producing animals. Under that provision a carcinogenic food additive, color additive, or new animal drug may be administered to a food producing animal if no residue of the substance in edible tissue can be found by an approved analytical method. The 1977 Sensitivity of Method (SOM) regulation and the 1979 re-proposal of the regulation explained FDA's view that the most appropriate way to implement this no residue exception, the DES proviso, to the Delaney Clause is to use risk assessment procedures to operationally define no residue to mean a level of residue that presents an insignificant risk to man. Accordingly, under the SOM procedure, the Agency concluded that any method used to find carcinogenic residues of animal drugs should be sensitive to a level that represents in the human diet an increased risk, over a lifetime, of not more than one in one million.

The statement concerning lead acetate is correct. FDA approved lead acetate for use in hair dyes, but stressed that the situation was a unique one that would not be expected to occur again. Because the lead is ubiquitous in the environment and is present to some degree in the human diet, existing blood lead levels are measurably significant. Lead acetate applied to the hair did not result in any measurable increase in those blood lead levels. Because of the unique situation involving this additive, the Agency approved it.

The observation on the constituents policy is broader than our published position, that is, we said that we could assess adequately the upper level of risk presented by a non-carcinogenic additive that contains a carcinogenic chemical. The same level of confidence would not necessarily apply to the assessment of risk in other cases.

With regard to FDA's constitutents policy, this question and the preceding questions suggest that FDA has both the legal authority and technical capability to adopt a de minimis interpretation of the Delaney Clause. We are examining this issue at present, but it should be noted that the Monsanto case did not involve an interpretation of the Delaney Clause; the SOM procedure implements an exception to the Delaney Clause; the lead acetate decision was based on a finding that the Delaney Clause did not apply; and the constituents policy is based on a legal interpretation that the Delaney Clause does not apply to carcinogenic impurities in an additive that is itself not carcinogenic.

One question is whether the Working Group on Food Safety adhered to the position that one in one million individual lifetime risk of cancer presents no additional risk to the public. Not exactly. The Working Group on Food Safety has, however, recommended that the Delaney Clause be modified in two important respects. First, the Working Group felt that the Delaney Clause should be written to provide a greater focus on the relevance of animal data to the risk of cancer in humans. Secondly, the Working Group recommended that the Delaney Clause be modified to permit the use of risk assessment procedures, when appropriate, to determine that a substance that caused cancer in animals might, nevertheless, present a negligible risk of cancer in humans. The Working Group did not focus on the precise level of risk that might be determined to be negligible but was aware, obviously, of the use of the one in one million lifetime risk level that had been discussed in the development of FDA's Sensitivity of Method policy.

With regard to the question about whether FDA will now adopt a broad de minimis exclusion for insignificant cancer risks under current law, FDA is now considering to what extent the concept of de minimis can be applied under current law. Although we cannot say definitely at this time whether FDA will adopt a broad policy of excluding de minimis risks, it should be recognized that the Delaney Clause and its legislative history affect FDA's discretion to adopt such a policy. As discussed previously, the strict holding of the 1979 Monsanto decision was not that FDA has discretion under the Delaney Clause to ignore a de minimis risk, but that FDA has discretion under the food additive definition to ignore de minimis migration to food of a food packaging component.

The final question relates to how the Delaney Anti-Cancer provisions of the law can be interpreted to prohibit use of a substance that in FDA's words imposes no additional risk of cancer to the public. Our answer to that question has two parts. First, a substance that causes cancer and has been subjected to a risk assessment showing some stated level of risk is clearly not totally risk free, so such references must be understood in the context of the documents in which they appear. When looked at in that way, it is clear that FDA's conclusions were that insignificant levels of risk can and have been established by FDA, using risk assessment procedures; but only in those situations where the Agency has been able to determine that the rigid provisions of the Delaney Clause do not apply. It would be quite another matter to assert that a food additive or an ingested color additive could be approved by FDA in the face of the Delaney Anti-Cancer Clause if the additive had been shown to induce cancer in man or animals. This gets to the second part of the question, that the Delaney Clause does not, by its terms, make any distinction between high levels of risk and low levels of risk. Indeed, the legislative history suggests that Congress expected and intended for the Delaney Clause to prohibit even low levels of risk from carcinogenic chemicals that were deliberately added to human food. Consequently, FDA's consistent interpretation of the Delaney Clause throughout its entire 25 year history has been that the statute absolutely prohibited the Agency from approving carcinogenic food or color additives.

QUESTION: In September 1982, the present Administration's Subcabinet Council Working Group released a second draft of proposed food safety legislation for public review. In that second draft, the Administration defined "safe" as a reasonable certainty of "no harm," and then defined "no harm" as "negligible risk."

Does the present Administration believe that there is a difference between the terms "zero risk" and "no harm"? Does the present Administration believe that there is any difference between the terms "no harm" and "insignificant risk"? Does the present Administration believe that there is any difference among "de minimis," "negligible," "insignificant," and "trivial" risk? If you believe there are differences, please rank these terms in order of decreasing risk and explain the differences that are perceived among these terms.

ANSWER: It would seem that zero risk means no risk at all. On the other hand, the Food Safety Working Group did equate no harm with negligible risk and it would seem that the term insignificant risk would mean essentially the same thing--the risk was acceptable but not zero. Any additive that posed a negligible risk would be considered safe, but it would not necessarily have a wide margin of safety. On the other hand, the term de minimis would seem to suggest not only that the amount of a toxic substance to which humans would be exposed was so small that it was safe, but that assuming the worst, there would be, in the words of the Monsanto Court, a wide margin of safety. In other words, insignificant risk justifies a finding that an additive is safe and that it can be permitted by regulation, while de minimis means that the substance in question is thought to migrate into food at such a low level that it need not be regulated as a food additive.

HEALTH BENEFITS

QUESTION: In the present Administration's second draft of proposed food safety legislation, a food substance with a long history of use and no practicable substitute could, even after adverse animal testing, be continued in use if the "health" benefits outweigh the risks. The National Academy of Sciences has stated that there are no proven health benefits associated with saccharin. There also appears to be no proven health benefits associated with black pepper, mustard, or other spices or raw agricultural commodities that may in the future be shown to be carcinogenic in test animals.

Does the present Administration believe that saccharin would be banned under the present Administration's second draft bill? Does this Administration believe that saccharin should be banned? Does the Administration believe that black pepper and mustard would be banned under a "health benefits" approach, if there were no other provision to save them? Should they be banned now that they have been determined to cause cancer in test animals?

If nitrite were found to be carcinogenic in test animals and an effective antibotulism substitute were also found for cured meat, does the present Administration believe that nitrite should be banned even if no substitute is found for its color fixative properties? Under the Administration's second draft bill, would nitrite be required to be banned (after an appropriate phase-out) under these circumstances because there is no longer a "health benefit" for it?

ANSWER: First, let's take the case of saccharin. The Working Group did not focus on this or any other substance in preparing its recommendations relative to food safety legislation. Furthermore, saccharin has not been reevaluated by FDA since the saccharin moratorium was enacted by Congress. Any statement about what might happen to saccharin under a new law--were one enacted--is therefore speculation. It is perhaps more useful to say something about the process that saccharin would be eligible for under the recommendations of the Food Safety Working Group.

There would have to be a reevaluation of all of the scientific data on saccharin, including recent data not available to FDA in 1977. These data would be evaluated under a revised Delaney Clause that permitted greater scientific inquiry into the question of risk to humans and also the authorization to use risk assessment procedures if appropriate. In addition, a situation such as the one presented by saccharin could be subject to review by scientists outside of FDA as part of the process of evaluating the scientific data and resolving all of the scientific issues. If saccharin were, nevertheless, found to be a carcinogen that imposed an unacceptable risk, it would clearly be eligible for additional consideration to determine whether it provided health benefits sufficient to make such risks acceptable. The Working Group has recommended that dietary management be included within the scope of health benefits.

If it were, nevertheless, determined that saccharin did not have such health benefits and therefore had to be prohibited, it would still be eligible for phase-out consideration. Under the recommended phase-out provisions, saccharin could be permitted for up to four years so long as efforts were under way to develop an alternative, and no unreasonable risk to the public health will result from such continued use. In addition, that initial four year period could be extended for an additional four years before saccharin had to be removed from the market.

The important thing to note about this process is that it is an orderly way of evaluating data to determine the public health consequences, both positive as well as negative, of allowing saccharin to continue in the market place. In addition, however, it gives due regard to the problems associated with immediately removing something that is on the market and has no alternative. We believe that this is the proper focus that the law should have and that it will produce reasonable and widely acceptable results. This process would, however, result in the actual removal of saccharin from the market place if saccharin failed each of the tests. The question whether saccharin should be banned really should not be answered without going through the process just discussed in a systematic and dispassionate way.

The question with regard to black pepper, mustard and other spices and raw agricultural commodities is best answered by pointing out another recommendation made by the Sub-Cabinet Council Working Group on Food Safety, speaking now of the recommendation to establish a separate category of traditional food ingredients which would include raw agricultural products and spices. This category under the Food Safety Working Group's recommendation would not be subject to the food additive provisions of the Act. There would be no automatic trigger for removing substances in the traditional foods category, and even if FDA felt that the public needed to be protected from any such substance, it would have to assume the burden of proving that the substance caused food to be adulterated within the meaning of section 402(a)(1) of the Act.

It should be emphasized that nitrite has not been found to be a carcinogen, and no effective anti-botulism substitute has been demonstrated. In FDA's view, the principal rationale for the use of nitrite in cured meat, poultry, and fish products is to protect consumers against botulism. Nitrite's color fixative properties make meat more attractive, but this function is not related to safety. Therefore, if nitrite were found to induce cancer in animals by ingestion, and an effective anti-botulinum substitute in cured meat were available, FDA believes that nitrite should be banned even if no substitute is found for its color fixative properties. We believe that if no substitute is found for its color fixative properties, but there is a practicable antibotulinum substitute for nitrite, nitrite would have to banned if found to be a carcinogen either under existing law or under the Working Group's proposal.

TRADITIONAL VS. SYNTHETIC FOODS

QUESTION: Under the present Administration's second draft of proposed food safety legislation, basic or traditional foods would be exempt from the provisions relating to food additives.

Is this proposed exemption based upon a determination that natural foods are inherently safe or in any event are safer than foods made from synthetic sources? If a synthetic food presents no greater risk than a comparable natural food, and is equally desired by consumers, does the present Administration believe that it should receive different treatment under the law?

ANSWER: The traditional foods category is not based upon the assumption that natural foods are inherently safer than synthetic ingredients. It is rather a refinement of the food categories identified in the current statute which reflect an inherent risk-benefit judgment by Congress. For example, under the current statute, single ingredient foods such as baked potatoes are held to a different safety standard than food additives and are not subject to the premarket approval process required for food additives. This difference in regulatory treatment reflects a decision by Congress that certain foods because of their long history of use and general acceptance should be less closely regulated. We believe that this judgment is correct and the traditional foods category is simply an extension of the same concept. Consequently, whether a food is synthetic or natural is not really the issue. Rather, the traditional foods category attempts to distinguish between traditional foods with a long history of use and synthetic substances without such a history of use.

There is, however, an additional question with regard to the evaluation of the safety of synthetic substances. Neither the natural nor the synthetic food are likely to be entirely pure. The synthetic food may, however, have different kinds of impurities than the natural substance and these may pose greater or different risks. This, of course, won't always be the case, but it is difficult to make that determination without engaging in some sort of evaluation. Consequently, it makes sense to require closer scrutiny of synthetic materials than of traditional foods that are made in traditional ways.

QUESTION: The FDA Commissioner has stated that FDA and USDA will work together to develop a joint position on food safety legislation.

Does the Administration's second draft of proposed food safety legislation represent the final FDA/USDA joint position? If not, what additional steps will be taken to develop a final FDA/USDA joint position?

ANSWER: The second draft of proposed food safety suggestions does not represent the final FDA/USDA joint position. On January 25, 1983, the Working Group on Food Safety transmitted to the Cabinet Council on Human Resources its final food safety recommendations; these recommendations represent the final FDA/USDA joint position. There are no additional steps necessary in the preparation of a joint FDA/USDA position except for the preparation of testimony for upcoming food safety hearings this summer.

COMMODITY FUTURES TRADING COMMISSION

STATEMENT OF PHILIP McBRIDE JOHNSON, CHAIRMAN

ACCOMPANIED BY:

DONALD TENDICK, ACTING EXECUTIVE DIRECTOR
HUNT BANISTER, BUDGET DIRECTOR

INTRODUCTION OF WITNESSES

Senator COCHRAN. We want to welcome our second panel to the committee today. We have the Chairman of the Commodity Futures Trading Commission, Mr. Philip Johnson, with us. We welcome you.

ACTIVITIES OF COMMISSION

The Commission administers the Commodity Exchange Act. It is responsible for furthering the economic utility of futures markets by safeguarding their integrity and by promoting their efficiency. It accomplishes these objectives through its four major program activities: Market surveillance; research and education; registration, audits, and contract markets; and enforcement.

The President's budget request for the CFTC for this year is $24.7 million, an increase of $1.8 million over the amount provided for fiscal year 1983.

PREPARED STATEMENT

Welcome, Chairman Johnson. We appreciate your being here and ask you to proceed in any way you wish. We do have a copy of your statement, and we will make it a part of the record. I invite you to introduce those accompanying you.

[The statement follows:]

STATEMENT OF PHILIP MCBRIDE JOHNSON

Mr. Chairman and members of the subcommittee, thank you for the opportunity to summarize the Commission's budget needs for fiscal year 1984. I am accompanied today by Donald Tendick, Acting Executive Director, and Hunt Banister, our Budget Director.

TURNING POINT FOR THE CFTC

The Commission is at a crucial point in its course. The agency has just emerged from a reauthorization process which left it a stronger and more credible agency. The ability of the agency to keep the promise of the reauthorization legislation depends heavily on whether we have the resources to move ahead. The agency's service to the public and contribution to the economy also depend upon adequate funds, as does its protection of the public against abusive practices. These tasks are made more difficult each year simply by reason of the markets' enviable growth and the comparatively static nature of the Commission's resources.

Over the 8 years since the Commission was formed, volume in the futures markets has increased by 280 percent, or about an average of 40 percent a year. This growth has placed considerable financial strains on the industry as well as the Commission. For example, today, both the Chicago Mercantile Exchange and the Chicago Board of Trade operate on budgets that are larger than the Commission's, although neither exchange trades more than one quarter of the products the Commission regulates.

The Commission's duties have increased drastically with industry growth. Nearly 50 new products have been processed within the last 2 years. The number of professionals needing registration by the agency has grown by 22,000 since 1977, and, in October 1982, the Commission began a regulated options program on the exchanges, the first since the 1930's.

These additional duties and the Commission's involvement in the reauthorization process did not keep the Commission's staff from making great strides in other areas. The Commission focused strong enforcement efforts on those who attempt to misuse the marketplace. Since June 1981, the Commission has assessed approximately $3,800,000 in civil penalties, all of which go to the Treasury and thus reduce the agency's cost to taxpayers. These penalties were five times greater than all of the penalties collected by the Commission from its creation in 1974 until mid-1981.

The reparations program significantly improved its record during fiscal year 1982, with the completion of 893 cases, the program, for the first time in its history, disposed of a greater number of cases than it received.

The Commission also issued a number of important new rules, including a requirement that exchanges establish speculative limits on the size of futures positions held by speculators in all commodities where such limits did not already exist.

The Commission also made progress in the development of its automated data processing system. The registration system is now automated, as are data regarding market prices, trading volume and open interest, as well as information from daily large trader reports. The five exchanges which have begun trading in options are reporting options and most futures data in machine readable form. The remaining exchanges will begin automated reporting shortly.

We eliminated duplicate reporting requirements for large traders, reducing the paperwork burden on the trading community by about 375,000 filings per year. And, an unnecessary monthly statement from brokers to inactive customers was also eliminated, saving about $100,000 a year for one firm alone, with comparable savings available to others as well.

COMMISSION STAFF AND APPROPRIATION REQUEST

The Commission's staff has hovered around 470 since 1977. The current fiscal year 1983 budget of $22,892,000 was designed to allow the Commission to bring the Commission up to 523 full-time and temporary staff members. However, we will not be able to hire to that level because of an OMB directive requiring the Commission to absorb this year's increases in pay to agency executives and staff, as well as the Commission's share of the medicare contribution for employees. These absorptions amount to roughly $1 million that cannot be used to meet staffing needs. As a result, we expect to maintain an employment level in 1983 that is about 30 less than the authorized ceiling.

In other words, the Commission will enter fiscal year 1984 already behind in its staffing plan. The basic operating request before you—$24,691,000—would restore the roughly $1 million consumed this year for pay and benefit increases and allow the Commission to staff up to nearly the level approved for 1983. We feel that achieving a staff level of about 520 people—already delayed for a year—cannot prudently be delayed again. OMB concurs.

Fully half of this staff increase will go to the Commission's burgeoning law enforcement program, that is, to assuring the integrity of the markets through the prompt and efficient prosecution of violators. Another quarter of the positions will go to market surveillance, the Commission's first line of defense against market disruptions, and a far cheaper program than after-the-fact remedial action. The remaining positions will be spread among other operating units in order to provide better service to both the public and the Commission.

The Commission is also continuing to monitor and encourage the progress of the National Futures Association. NFA is now staffed and expects to be ready to begin processing registrations in late fiscal year 1983. As a result, the Commission has not asked for more registration staff. Instead, we intend to maintain our current staff level until NFA registration is effective, and then reassess what our staffing needs will be.

ADP SERVICES

The use of modern automated data processing can greatly enhance the efficiency of the Government. Accordingly, the Commission is seeking an additional $800,000 for enhancement of its data processing systems. The Office of Management and Budget reduced that figure by almost 85 percent, to $130,000 for fiscal year 1984. Unless the $670,000 is restored, our ability to analyze data on new products will be significantly hampered—and we certainly will not be able to develop new systems, such as case tracking, which would enhance the efficiency of our judicial function. Without these additional funds, the Commission will be strained to meet its current registration and market surveillance applications, including the new requirements imposed by the reauthorization legislation. Therefore, the Commission is requesting restoration of $670,000 to its ADP budget for fiscal year 1984.

As mentioned earlier, the reauthorization legislation imposes additional requirements on the Commission. Some of the new rules and regulations which will require additional resources during fiscal years 1983 and 1984 are listed in the Commission's budget explanatory notes in Appendix A. The Commission will also be undertaking four studies as a result of the reauthorization legislation. Because these studies will require extensive resources, we have asked OMB for an amendment to the 1984 budget of $1.33 million. A copy of that request was sent to you, Mr. Chairman, and I would ask that it be made a part of today's record. We would greatly appreciate the committee's support in our efforts to fund these one-time studies.

If this committee approves our full budget request, the Commission's resources will rise from $22,892,000 in 1983 to $26,691,000 in 1984. The 1984 amount includes the request contained in the explanatory notes ($24,691,000) plus restoration of the $670,000 to the ADP budget and $1.33 million for studies mandated by the Futures Trading Act.

Since this is likely to be my last appearance before this committee, I would like to thank you, Mr. Chairman, and the members of your committee for the support given the Commission during my tenure. I hope that you are as proud as I am of the prodigious rate of productivity that the Commission has achieved and that the committee will support this budget request which is designed to maintain that momentum.

INTRODUCTION OF ASSOCIATES

Mr. JOHNSON. Thank you very much, Mr. Chairman. On my right is Mr. Donald Tendick, who is the Acting Executive Director of the Commission. On my left is Mr. Hunt Banister, who is our Budget Director. And in the room, the last time I looked, is one of my colleagues, Commissioner Susan Phillips.

APPROPRIATIONS REQUEST

Mr. Chairman, last fall the Commission prepared a budget for fiscal year 1984 of $24,619,000, an increase over fiscal year 1983 of $1,799,000. The increase would cover cost escalations for existing agency functions, as well as funds to create 30 additional staff-years. This increase in staff is actually scheduled for the current fiscal year, but when the Commission was required to absorb this year's pay and benefit increase without a supplemental appropriation, the funds needed to reach that staffing level were consumed by these unexpected costs. Therefore, our 1984 budget simply contains the funds needed to achieve a staffing level contemplated 1 year earlier. Half of the staff would be assigned to law enforcement programs, about another quarter to market surveillance work, and the remainder to other operating areas.

However, we are asking for funds beyond the original budget in two areas. First of all, we need an additional $670,000 for ADP services.

The Office of Management and Budget reduced our original proposal by that amount, namely, from $800,000 to $130,000. In order not to rely on manual procedures to keep pace with an industry that is growing at an annual rate of 40 percent, we must have more ADP funds to handle the huge amount of critical data that results from the trade and to fulfill our licensing responsibilities in a timely manner.

APPROPRIATIONS FOR CONGRESSIONALLY MANDATED STUDIES

The second item arises from the Commission's recent reauthorization by Congress. In that process the Commission was assigned a task to conduct four new studies of financial products, hedging on certain livestock contracts, insider trading, and the new National Futures Association. During fiscal year 1984, we will need an additional $1,330,000 to move these studies forward.

All told, therefore, our budget request for fiscal year 1984 is $26,691,000, to be used for purposes already indicated. With these funds the Commission expects to be well positioned to meet both existing and new duties.

Thank you, Mr. Chairman.

USE OF FUNDS APPROPRIATED

Senator COCHRAN. We notice the budget request is one number and your testimony is another number. There is an additional $2 million over the President's budget request, $1.3 million, as you say, for studies mandated by the reauthorization of the CFTC, and $670,000 for restoration of the automatic data processing budget. Has OMB signed off on these additional items?

Mr. JOHNSON. Mr. Chairman, we are requesting additional ADP funds over the objection of OMB. We had originally asked for $800,000. Some of that is for equipment purchase, $130,000; the rest is for time-sharing expenses. We do virtually all our ADP on a time-sharing basis these days. OMB refused to accede to anything more than $130,000. We simply cannot continue to monitor these markets adequately with the lower amount OMB had been willing to approve. We are asking the committee for more than OMB supports on the ADP funds.

With respect to the special studies that arose out of reauthorization, at the time the budget was originally prepared, we did not know these studies would be forthcoming. This is an add-on as a result of that. We are, in fact, discussing with OMB, and have a meeting this afternoon, to see if we can persuade them to agree to add $1,330,000 to the budget for that purpose.

Senator COCHRAN. Aren't these requests something of a luxury, especially from someone who has announced he is leaving the agency?

Mr. JOHNSON. Well, it is always distressful to us when we have a public disagreement with OMB. I don't have any reason to think there is any disagreement on the vast majority of these additional funds, particularly the study aspects. We do not have a negative response from them at this point. The disagreement is over the ADP. Despite our best efforts to juggle and move people around and defer hiring and the like, it is a hard reality that we simply cannot process the millions and millions of pieces of market information every year unless we automate. We cannot automate without the full amount we requested initially.

ENFORCEMENT ACTIONS

Senator COCHRAN. In your statement there is an indication that over 60 persons have been indicted as a result of CFTC investigations and actions. What is the major type of activity that is involved in these indictments? Is there a pattern to the offenses that are being identified, or is there a wide range of criminal charges?

Mr. JOHNSON. The criminal charges arise out of a wide variety of conduct, but I believe the most important category would be what I would refer to as unlawful off-exchange, boiler room commodity scam operations, where the Commission has traditionally moved in on a civil basis, shut the firm down, referred the matter to the Justice Department, and it is the Justice Department who has brought criminal charges. These are not people who operate on the market or in the brokerage community. They are flim-flam operators.

Senator COCHRAN. Is the amount of money in the budget request this year sufficient to enable you to continue to conduct investigations of that kind to help protect the members of the public and others who are pawned by that kind of criminal conduct?

Mr. JOHNSON. Yes, Mr. Chairman, it is. I might add that the reauthorization legislation expanded the opportunity for State law enforcement agencies to move into this area, and we fully expect they will be more active in the future than they have been in the past.

STATES' JURISDICTION

Senator COCHRAN. There is nothing in the CFTC Reauthorization Act that restricts States from conducting that kind of activity?

Mr. JOHNSON. Not with respect to these types of operators, that is correct.

NATIONAL FUTURES ASSOCIATION

Senator COCHRAN. I notice there has been a strong effort in industry to develop the National Futures Association into an effective entity to carry out some self-regulatory responsibilities. What is the status of the CFTC's relationship with the NFA? Do you have any formal, regulatory relationship with NFA, or with their proposed or promulgated rules and regulations? Could you define that relationship?

Mr. JOHNSON. Yes, Mr. Chairman, the CFTC has oversight of the National Futures Association essentially the same way it has oversight over the exchange. The original designation or registration of the NFA was done by the Commission. Its major rules and regulations are reviewed by the Commission. There will be a number of services and functions performed by the NFA that the Commission will oversee. Already the NFA is doing financial audits of many of its own member firms. We work with the NFA on that. We have a formal liaison officer with the NFA. We are holding, every other month, public meetings of the Commission at which NFA representatives give us a report on its progress. We have a very close relationship, and a good working relationship with the NFA.

REGISTRATION FUNCTIONS

Senator COCHRAN. There has been some criticism recently of the slowness with which the CFTC processes applications for commodity broker registration and other routine matters. Is this a justified criticism? Is it accurate?

Mr. JOHNSON. Mr. Chairman, it has been accurate. That problem, in large measure, has now been resolved. We shifted over our ADP equipment last summer. I can state that there was a flood of new applications coming in by reason of a deadline that was set up in midsummer. We had to cut through that backlog. At this point registrations are current, but there was a period of 4, 5, or 6 months where registrations were running more than the usual 8 to 10 weeks in processing.

OMB BUDGET AMENDMENT

Senator COCHRAN. Can we expect to receive from OMB an official budget request for this additional $2 million?

Mr. JOHNSON. Mr. Chairman, the committee will receive a report from us on the outcome of the OMB discussions for the $1.33 million in studies. I have no reason to believe that OMB—although I have been surprised before—will change its attitude toward the additional $670,000 in ADP funds. If there is any change on that fund, we will certainly notify the committee immediately.

Senator COCHRAN. Thank you very much. We appreciate having your testimony and your response to our questions.

Mr. JOHNSON. Thank you.

Senator COCHRAN. What is your target date for leaving?

Mr. JOHNSON. May 1.

Senator COCHRAN. We wish you well.

Mr. JOHNSON. Thank you so much.

Senator COCHRAN. Our final panel this morning is the Farm Credit Administration. I will ask them to come up now, but before we begin, we will take about a 2-minute break.

[The following questions were not asked at the hearing but were submitted to the Commodity Futures Trading Commission for response subsequent to the hearing:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

SEC-CFTC Jurisdiction

Question: I have read that the New York and the American Stock Exchanges are considering seeking designation as U.S. futures exchanges in order to take advantage of being under CFTC jurisdiction for certain financial products.

1. Have these exchanges made application?

Answer: The New York Futures Exchange ("NYFE"), a wholly-owned subsidiary of the New York Stock Exchange ("NYSE"), has been designated by the Commission to list for trading the following financial futures and options contracts under the authority of the Commodity Exchange Act of 1974 as amended:

Commodity	Effective Date of Designation
Foreign Currencies	May 28, 1980
British Pounds	
Canadian Dollars	
Deutsche Marks	
Japanese Yen	
Swiss Francs	
90-day U.S. Treasury Bills	July 15, 1980
20-year U.S. Treasury Bonds	July 15, 1980
GNMA-CD	September 23, 1981
3-month Eurodollar Time Deposit Rates	December 15, 1981
NYSE Composite Stock Index	May 4, 1982
NYSE Industrial Stock Index	September 21, 1982
NYSE Financial Stock Index	September 21, 1982
NYSE Utility Stock Index	September 21, 1982
NYSE Large Composite Index Stock	November 30, 1982
Options on NYSE Composite Stock Index Futures	January 6, 1983

Of those contracts, all except the Composite Stock Index and the Industrial Stock Index either are currently dormant (i.e., not traded anymore) or have never been listed by the Exchange. In addition, NYFE has applied for designation for two other futures contracts: on the NYSE Transportation Index and the NYSE Energy Index. NYFE recently withdrew its pending application for designation in 25-year Corporate Bonds ("AT&T"). The NYSE itself has made no application for designation under the Act.

Similarly, a subsidiary of the American Stock Exchange ("Amex"), the Amex Commodity Exchange ("ACE"), was designated between 1978 and 1979 as a contract market in three financial futures contracts: GNMA Certificates, 90-day Treasury Bills, and 20-year Treasury Bonds. Subsequently all trading activity ceased, and ACE concluded its operations as a commodities exchange. The Commission then vacated the three contracts, and ACE formally dissolved in July 1981. Recently, however, Amex submitted a contract market application on behalf of a newly formed subsidiary, the Amex Commodities Corporation (ACC), to trade options on gold bullion under the Commission's new "options on physicals" regulations. That application currently is pending.

2. Would this situation create (or bring back) jurisdictional problems between the Securities and Exchange Commission ("SEC") and the CFTC?

Answer: Even prior to the SEC-CFTC jurisdictional accord, it was perfectly permissible for any stock exchange to take steps to apply to the CFTC for designation as a futures exchange - i.e., contract market, in order to trade commodity futures contracts. For example, in 1978, the American Commodity Exchange, a subsidiary of the American Stock Exchange, applied for and received designation by the CFTC to trade futures contracts on GNMA certificates. Trading in the contract was not successful, however, and the exchange later asked to have its designation vacated. In any event, the designation of stock exchanges in these contracts was not the source of former jurisdictional problems, which instead stemmed from the fact that products underlying certain futures were securities as well as commodities. Thus, applications by stock exchanges to the CFTC should not evoke jurisdictional problems. Moreover, the SEC-CFTC accord should enhance the ability of both futures exchanges and stock exchanges to introduce new market instruments since it resolves certain questions about jurisdictional assignment between the two agencies. It is now clear, for example, that options on government securities themselves are under the jurisdiction of the Securities and Exchange Commission, while futures contracts on such securities remain subject to the CFTC's jurisdiction. Further, the Federal Reserve Board study on markets mandated by reauthorization may revisit this issue as part of its general study.

3. What is the status of the once-popular notion in some quarters of merging CFTC into the SEC?

Answer: Prior to the CFTC-SEC accord, there were rumors in some circles about merging the two agencies in order to settle jurisdictional questions so as to permit trading new financial market instruments by various exchanges. Since the accord has been consummated, however, there has been substantially less talk about a merger of the two agencies. Of course, since both the commodities exchanges and the securities exchanges have introduced many new market instruments, involving securities and stock indices, there is an ongoing dialogue between the agencies to assure that these instruments are traded fairly and in a manner which is consistent with customer protection. Similarly, the agencies continue to engage in discussions concerning reduction of any duplicative regulatory burdens imposed upon those institutions which are regulated by both agencies.

NFA Functions and Responsibilities; CFTC Oversight

Question: I understand that a newly chartered organization called the National Futures Association ("NFA") may be in a position to take on some of your responsibilities soon.

1. What might those be, and when?

Answer: The Commission registered NFA as a futures association under section 17 of the Act on September 22, 1981. The organization formally began operating on October 1, 1982. Since then, NFA has already taken over the surveillance and monitoring functions of its non-exchange members that were previously performed by the Commission. Specifically, NFA conducts financial, compliance and sales practice audits of FCMs that are not members of any commodities exchange, as well as of CPOs and CTAs. As the remaining professionals in those categories who have not yet joined NFA become members, NFA will further relieve the Commission of that direct responsibility. At such time as additional persons not otherwise registered begin to register as introducing brokers ("IBs") and to become members of NFA, NFA -- rather than the Commission -- will undertake the direct oversight of those industry participants as well. In all such instances, however, the Commission retains regulatory authority over these NFA members and oversees the NFA's direct regulatory functions.

NFA also plans to undertake on behalf of the Commission, under section 8a(10) of the Act, the function of registering industry participants under the Act. Initially, the Commission has authorized NFA to receive and process requests for the Commission's no-action position concerning the required registration of IBs and associated persons of IBs prior to the adoption of final Commission regulations, as well as to receive and begin processing any applications for registration in those two categories. 1/ In the latter regard, NFA intends in May to adopt and submit for approval specific rules which, in accordance with such applicable regulations as the Commission adopts to govern the registration of IBs and their APs, would establish NFA procedures for processing IB and IB/AP registration applications, apply fitness standards to prospective registrants and adopt procedures to assure compliance with such standards, and establish notice and review procedures concerning denial of or other adverse action on registration applications. Upon adoption of the Commission's regulations and approval of NFA's rules, the Commission will extend its authorization to NFA to assume responsibility not only to receive and begin processing the applications but also to administer the entire program.

Later this year, as the Commission understands, NFA will request as well that the Commission authorize it to administer the Commission's registration programs for FCMs, CPOs, CTAs and APs of those three categories. NFA expects the computerized registration system which it is currently developing for that purpose to be operational by early fall 1983. As part of its request for this authorization under section 8a(10) of the Act, NFA will submit rules in accordance with Commission regulations governing the registration of these persons and entities.

Finally, as required by sections 17(p) and 17(q) of the Act, NFA must implement before September 30, 1985, comprehensive training standards and proficiency testing requirements for all persons involved in the solicitation of transactions subject to the provisions of the Act, supervisors of such persons, and all

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1/ 48 FR 15940 (April 13, 1983).

persons for which it has registration responsibilities. The Commission had previously taken action to implement a competency examination program by proposing a rule which would have made a written proficiency examination compulsory for all new applicants for registration as associated persons.[2] The Commission deferred action on that limited proposal, however, in view of NFA's intention to institute its own extensive testing program.

2. What is the purpose of NFA?

Answer: The purpose of NFA is described in Article III, Section 1 of its Articles of Incorporation. NFA states its fundamental purpose is to "promote the improvement of business conditions and the common business interests of persons engaged in commodity futures activity" by three means:

> (1) undertaking the regulation of persons that are members of NFA;
>
> (2) relieving the Commission from the burden of direct regulation in such matters; and
>
> (3) facilitating the allocation of increased Commission resources to contract market designations, approval of contract market rules, registration of industry professionals and other duties of the Commission "affecting the growth of the commodity futures industry and the public's ability to avail itself of the industry's expanding services."

Among the programs to effectuate those purposes are: administration and enforcement of requirements to promote just and equitable principles of trade by its members and their associated persons and prevent fraudulent or manipulative acts or practices; audits and enforcement of minimum financial and related requirements; arbitration of claims and grievances among members and customers; development and administration of training, experience and other qualification standards and written proficiency examinations; and administration and enforcement of uniform, industry-wide requirements regarding the dealings and relations between and among members, their associates, and customers.

3. Will its existence and the assumption of some of your activities reduce your budgetary needs? If so, beginning when?

Answer: The Commission has every expectation that as NFA proceeds to achieve comprehensive implementation of its intended self-regulatory programs, the Commission will be able to allocate its resources away from the costly direct regulation over industry participants. Because of the delicate and crucial nature of the transferral process from the Commission to NFA, requiring diligent attention to ensure that it is carried out without major difficulties, the Commission does not anticipate that NFA's assumption of certain Commission activities will lead to any reduction in CFTC budgetary needs until some time during fiscal year 1984 or more likely, 1985.

2/ 46 FR 20679 (April 7, 1981).

Budgetary needs are unlikely to be reduced until this time first, because NFA is not required to and will not likely fully implement all of its self-regulatory programs until some time in 1985. As NFA implements and demonstrates the effectiveness of its programs, the Commission may then be able to reduce its direct regulatory efforts and concentrate on oversight of NFA and the contract markets. Second, the Futures Trading Act of 1982 imposed significant new regulatory responsibilities upon the Commission, including a number of critical studies, which programs must be implemented and studies performed within the next two years. These new requirements were added to the Commission's responsibilities without any major increase in budget. Thus, to the extent NFA permits the Commission to realize budgetary savings, the Commission anticipates those savings will be directed to performance of the regulatory functions mandated by the Futures Trading Act of 1982.

4. Does CFTC monitor the activities of the NFA?

Answer: The Commission monitors NFA's activities in a number of ways. First, the Act imposes such direct oversight requirements as the submission of all NFA rules and rule change proposals for review before implementation and makes available appeals to the Commission by persons adversely affected by NFA denials of membership or by NFA disciplinary actions. Moreover, the Commission maintains more informal oversight by requiring NFA to provide monthly status reports describing its progress in developing and administering its programs, and by establishing opportunities for frequent communication and discussion between the Commission's and NFA's staffs. During fall 1982, the Commission appointed an NFA Liaison to coordinate the Commission's efforts in monitoring NFA. The NFA Liaison also reports regularly to the Commission about NFA.

In addition to the more routine surveillance of NFA's activities, the Commission is commencing an extensive study that will involve the examination of the effectiveness of NFA's programs and undertakings, particularly the extent of NFA implementation of the programs required by sections 17(p) and 17(q) of the Act. This study will serve as the basis for the Commission's report to Congress due January 1, 1986, on NFA's regulatory experience, as required by the Futures Trading Act of 1982. At a minimum, the study will monitor and evaluate NFA's progress in adopting, administering and enforcing programs regarding (1) training standards and proficiency testing; (2) financial requirements; (3) sales practices; (4) registration; and (5) arbitration.

5. How will this new organization, and its assumption of some of CFTC's activities affect the independence and ability of CFTC to carry out its mandates?

Answer: Prompt implementation by NFA of effective industry-wide self-regulatory programs and its assumption of related Commission activities should assist the Commission in carrying out its statutory mandates. By relieving the Commission of the need to maintain extensive (and expensive) direct regulatory programs itself, the existence of NFA will enable the Commission to focus its resources on more effective performance of such essential functions as self-regulatory oversight, enforcement of the Act and Commission regulations, rule review under sections 5a(12) and 8a(7) of the Act, market surveillance and review of new contract designations.

6. What is the status of the CFTC proposed rule, supported by NFA, to require all futures commission merchants to belong to NFA?

Answer: Commission staff will be presenting the Commission with a recommendation with respect to the proposed rule in May. The Commission expects to act on the staff's recommendation promptly.

BUDGET REQUEST

Question: The President's budget request reflects an increase of approximately $2.3 million. Your 1984 budget estimate document characterizes your request as "the minimum required to provide responsive service to the markets and their participants and to protect the public from abuse of the marketplace." You indicate that, without the increase, CFTC will "no longer be able to fully assure the safety and usefulness of the markets." Please explain how this increase will be applied?

Answer: The CFTC's budget estimate, sent to OMB in September, 1982, requested an increase of 30 staff-years and approximately $2.3 million. However, subsequent to OMB's review and mark-up of this request and allowing for the impact in 1984 of the executive pay raise, medicare and revised economic assumptions, the increase requested by the President was reduced in his January budget to $1,799,000. This amount includes $1,002,000 for an additional 30 staff-years, $230,000 for ADP and $567,000 for the anticipated increase in operating costs. It should be noted that in 1983 the Commission has been required by OMB to absorb the costs of pay raises and medicare; and consequently, the Commission will not be able to fund 30 of the 520 staff-years authorized. The FY 1984 request merely restores the staffing level to that which was authorized in 1983.

Question: How will the requested 30 additional staff-years be assigned?

Answer: The 30 additional staff-years will be assigned as indicated below for the purposes of the budget. However, it should be noted that the actual assignment of staff-years is determined periodically by the Commission.

--The enforcement program will be the major recipient of the 30 additional staff years. A total of 15 staff-years will be added to this program with eight supporting litigation activities and seven supplementing the CFTC's investigative resources.

--Four staff-years will be added to the market surveillance program. Two will support daily surveillance and two will provide additional market analysis capability.

--The administrative law program will increase by four staff-years in order to assist in the more timely disposition of complaints and reparations cases.

—Three staff-years will be used to enhance the Commission's market research and education capability.

—The legal counsel area will be augmented with two staff-years to help handle the increased workload resulting from litigation, opinion writing and court appearances.

—Two staff-years will be used to enhance the CFTC's administrative capability, primarily in the areas of financial management and personnel administration.

Question: Is this staff ceiling the number authorized by law?

Answer: OMB has given the CFTC a 1984 total staff-year ceiling of 523. The budget request now pending before the Congress provides sufficient funds for 520 staff-years.

STATUS OF COMMISSION

Question: There seems to be a constant problem with keeping a full slate of Commissioners on hand.

1. How many vacancies are there now?
2. When will it (they) be filled?
3. Are there CFTC performance ramifications when one or more seats remain unfilled?

Answer: There are currently two vacancies on the Commission - the seats formerly held by James M. Stone, who left the Commission as of January 31, 1983, and Philip McB. Johnson, who resigned as Chairman effective May 1, 1983. It is unclear at this point when the White House will forward nominations for these positions to the Senate. Until a new Chairman is named, Commissioner Susan Phillips will be the Acting Chairman. The Commission vacancies are not believed to have any impact on the high level of performance which the Commission consistently maintains.

CRIMINAL ACTIVITY

You indicated that over 60 persons were indicted on criminal charges as a result of CFTC investigations and actions.

Question: What are the major types of activity prompting these indictments?

Answer: In fiscal year 1981, 65 individuals were criminally charged in 22 proceedings as a result of commodities-related activities. In fully half of these proceedings, violations of various provisions of the Commodity Exchange Act were alleged, although the most frequently charged offenses were mail and wire fraud.

Question: To date, how have these cases been resolved, (i.e., according to pleas, convictions or acquittals, dismissals, etc.).

Answer: Of the 65 individuals indicted or charged by information in fiscal year 1981, 6 have been tried and convicted, 18 have pleaded guilty, 1 was acquitted and 40 await trial. Prison sentences of up to 10 years and fines ranging from $1,000 to $29,000 have been imposed upon those who have pleaded guilty or were convicted. Many of these criminal proceedings arose from investigations or actions conducted by the Commission or have received technical assistance from the Commission.

COMPLAINT INVESTIGATION PROCEDURE

Question: Describe the procedure you follow when a complaint is filed against a futures trading company, and explain the steps in investigating and bringing to closure a routine case.

Answer: Except for the reparation proceedings, there is no formal procedure for filing a complaint with the Commission against a "futures trading company". Information regarding suspected violations of the Commodity Exchange Act is obtained informally from a number of sources, and this information is investigated by the Division of Enforcement ("DOE"). These sources of information include the following: 1. Information from other Divisions: Other Divisions, especially the Division of Trading and Markets and the Division of Economics and Education, often uncover suspected illegal activity during the course of work they perform or information they obtain. This information is referred to DOE for investigation; 2. Customer Complaints: Customers will often write or call DOE offices located throughout the United States regarding suspected violations of the Act and will later fill out confidential DOE questionnaires providing additional information; 3. Other federal/state agency referrals: State agencies (such as the State Attorney General's Office or the Securities Commissioner's Office) and other federal agencies (such as the SEC or the FTC) will often obtain information regarding suspected violations which are not within their jurisdiction and will refer this information to DOE; 4. Law enforcement referrals: Because of the close working relationship DOE has established with various federal law enforcement agencies (such as the United States Attorneys Offices, the FBI or the Postal Service), information obtained by them regarding suspected violations is referred to DOE; 5. The company itself: At times the company itself will inform DOE of suspected violations of the Act by persons working for that company (such as unauthorized trading or embezzlement of customer funds); 6. DOE monitoring: DOE regional offices attempt to monitor the activities of individuals who have been defendants in prior DOE enforcement actions as well as monitor advertisements in various newspapers and magazines; 7. Other sources: On occasion DOE receives information from other individuals (such as former salemen of companies or confidential sources) or from other entities such as the Exchanges, NASD or NFA.

Once DOE receives information regarding suspected violations of the Act, an investigation is begun which becomes progressively more resource-intensive as additional information is developed. These stages of the investigation are as follows: 1. Preliminary inquiry (matter): An investigator would review the information, obtain registration information and discuss the information with its source. If the investigator determined that no violation had occurred, that the matter was outside the jurisdiction of the Commission, or that, after discussion with the supervisor additional investigation was not warranted, the matter would be closed; 2. Informal Investigation: At this stage an attorney would be assigned to the case with the investigator, and an opening report would be prepared outlining the allegations, the results of the investigation thus far, and the suspected violations of the Act. Shortly, thereafter a preliminary investigative plan would be prepared. During this stage of the investigation, the attorney and investigator would attempt to develop other sources of information, collect records and other documentary evidence from a variety of sources, conduct a "walk-in" on the suspect company, collect additional documents and records from the company and conduct interviews of various persons affiliated with that company. When the informal investigation has been completed, the attorney and investigator would discuss the case with their supervisor to determine whether further action was warranted or whether the case should be closed. If the case is closed at this juncture, a detailed closing report would be prepared; 3. Formal Investigation: In many instances, an investigation cannot proceed without depositions of certain individuals being taken and documents being subpoenaed. If this is the case, DOE prepares a memorandum to the Commission setting forth the background of the investigation and requesting that the Commission issue a formal order authorizing members of the DOE staff to subpoena documents and compel testimony under oath. Once the Commission issues such an Order, depositions of various individuals are taken and documents are subpoenaed. The information obtained from this investigation is analyzed and records are reviewed with a view toward preparing either an injunctive or an administrative action. If the case is closed at this juncture, a detailed closing report would be prepared; 4. Injunctive/Administrative action: DOE staff prepares a memorandum to the Commission recommending that the Commission authorize DOE to file an injunctive and/or administrative complaint in a case where evidence has shown that violations of the Act have occurred. The type of action is determined by the nature of the violations and the need for specific types of relief. Once the Commission authorizes the DOE to file an action, it proceeds through the normal course of litigation either through final judgment or settlement. In all cases where an action is settled, the Commission must approve the settlement terms prior to resolution. At the end of this litigation a closing report is prepared.

Question: What are the rules concerning confidentiality when a company is under investigation?

Answer: The information acquired in the course of a CFTC investigation is normally treated as non-public by the Commission pursuant to Regulation §11.3.[1] Regulation §11.3 provides that "all information and documents obtained during the course of an investigation, whether or not obtained pursuant to subpoena, and all investigative proceedings shall be treated as non-public by the Commission and its staff." However, that Regulation also provides that the data may become public if the Commission so directs, in an adjudicatory proceeding, or as required under the Freedom of Information Act.[2] A person who provides information to the Commission during an investigation or otherwise may request that certain sensitive information be granted confidential treatment and not produced for public inspection and copying pursuant to the Freedom of Information Act. Such a petition for confidential treatment may be filed under Regulation §145.9.[3]

Once a petition that meets the requirements of Regulation §145.9 is filed, the petitioner will receive from the Commission notice and an

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1/ 17 C.F.R. §11.3.
2/ 5 U.S.C. §552.
3/ 17 C.F.R. §145.9.

opportunity to appeal any decision to deny confidential treatment. It should be noted that upon request the Commission may share otherwise confidential information with other federal agencies for law enforcement purposes pursuant to §8(e) of the Commodity Exchange Act ("Act")[4] and that §8a(6) of the Act[5] authorizes the disclosure of certain information to contract market officials.

The Futures Trading Act of 1982[6] ("1982 Act") contains several provisions that also affect the disclosure of information by the Commission. First, Section 8a of the Act[7] has been amended to authorize the Commission to ". . withhold from public disclosure any data or information concerning or obtained in connection with any pending investigation of any person." Section 8(a) continues to prohibit the disclosure of information that would separately disclose the business transactions or market positions of any person and trade secrets or names of customers, unless such disclosure is otherwise authorized by the Act.

Second, the 1982 Act revised Section 8(b) of the Act,[8] to authorize the Commission to disclose publicly any information that would separately disclose the market positions, business transactions, trade secrets, or names of customers to any person in connection with, "any receivership proceeding involving a receiver appointed in a judicial proceeding brought under this Act, or in any bankruptcy proceeding in which the Commission has intervened or in which the Commission has the right to appear and be heard under Title 11 of the United States Code". Section 8(b) already authorized the disclosure of this information in connection with a congressional proceeding, or in an administrative or judicial proceeding brought under the Act.

Third, the 1982 Act adds Section 8(f)[9] which prohibits the Commission from disclosing, pursuant to summons or subpoena, information which has been submitted to it by a third party before the expiration of 14 days from the date of notice of the summons or subpoena for that information to the person who submitted the information.

The 1982 Act contains several additional provisions affecting the release of information by the Commission. Specifically, Section 8(e),[10] as amended by the 1982 Act, provides for disclosure of otherwise confidential information to state agencies or departments, or their political subdivisions, and to agencies or departments of foreign governments, or their political subdivisions, pursuant to specified conditions. The 1982 Act also contains a new section, Section 8(g),[11] requiring the Commission, upon request or when the Commission determines it is appropriate to do so, to provide any registration information to State agencies, departments and political subdivisions. Finally, the 1982 Act amends Section 8a(6)[12] to allow the Commission to disclose the full facts concerning any transaction or market operation, under specified circumstances, to a registered futures association, or a self-regulatory organization as defined in the Securities Exchange Act of 1934. Section 8a(6) already authorized the Commission to disclose this information to contract market officials.

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[4] 7 U.S.C. §12(e).
[5] 7 U.S.C. §12a(6).
[6] Public Law No. 97-444,96 Stat. 2294 (1983).
[7] 7 U.S.C. §12(a).
[8] 7 U.S.C. §12(b).
[9] 7 U.S.C. §12(f).
[10] 7 U.S.C. §12(e).
[11] 7 U.S.C. §12(g).

The Commission is currently promulgating regulations to implement the provisions of the 1982 Act discussed above.

Question: Can you tell the subcommittee how many investigations were conducted in fiscal year 1982? How many are pending now? How many resulted in disciplinary action?

Answer: During fiscal year 1982, the Division of Enforcement opened 52 investigations and closed 71 investigations. At this time approximately 79 investigations are in progress. Forty-four administrative complaints and 17 civil injunctive actions were instituted in fiscal year 1982.

CIVIL PENALTIES

I understand the Commission assessed approximately $3.8 million in civil penalties since June, 1981. These penalties were made against contract markets, professionals, and traders for infractions under the Commodity Exchange Act. These penalties total more than all penalties in previous years combined (1975-1981).

Question: Please provide a list of those assessments imposed, as well as any assessed to date in fiscal year 1983. Please include date, respondent, and dollar amount.

Answer: The information you request is set forth in Schedule A.

Question: Where are penalty revenues deposited and how are they used?

Answer: In fact, an excess of $4.1 million in civil penalties have been imposed since the beginning of fiscal year 1981. As shown in Schedule A, the Commission assessed a total of $958,500 in civil penalties between 1975 and 1981. All revenues received by the Commission for penalties are deposited into the general fund of the Treasury. These revenues are used by the Treasury to offset the amount of funds which they must raise to fund Government operations. They cannot be used by the CFTC.

12/ 7 U.S.C. §12a(6).

SCHEDULE A
CIVIL PENALTIES IMPOSED IN FY 81

Docket No.	Order Dated	Respondent(s)	Amount
79-28	10/15/80	First Commodity Corp. of Boston	$ 83.81*
79-28	10/15/80	Donald Schleicher	$200,000
79-28	10/15/80	Richard Schleicher	$100,000
79-28	10/15/80	Benjamin T. Elliott	$ 3,500
79-28	10/15/80	David Stone	$ 1,500
79-28	10/15/80	Emil Lawrence	$ 3,500
79-28	10/15/80	Robert Duke	$ 30,000
81-2	12/17/80	Harvey Shiller	$ 10,000
79-31	1/7/81	Jules Nordlicht	$ 75,000
81-7	2/9/81	Philip L. Beham	$ 1,500
81-7	2/9/81	Hornblower and Loeb Roades	$ 6,000
78-48	12/25/80	Lincolnwood Commodities, Inc., of Calfornia	$100,000
78-48	12/15/80	Constantine Baksheeff	$ 70,000
78-48	12/15/80	Paul N. Saharoff	$ 25,000
78-48	12/15/80	Carlton G. Almgren	$ 35,000
78-48	12/15/80	Ronald Bashista	$ 30,000
78-48	12/15/80	Walter Shergin	$ 6,000
78-48	12/15/80	Victor B. Platonoff	$ 6,000
78-48	12/15/80	Richard W. Bennett	$ 6,000
79-21	2/23/81	Emil Akar	$ 5,000
79-27	3/10/81	Easton & Co.	$ 20,000
79-27	3/10/81	Stanley Easton	$ 10,000
79-27	3/10/81	Roger Geissler	$ 10,000
79-27	3/10/81	Kenneth Easton	$ 3,000
79-27	3/10/81	Howard Paul	$ 1,000
79-27	3/10/81	Dishy Bros.	$ 5,000
79-27	3/10/81	Bernard Dishy	$ 2,000
78-11	3/19/81	Shearson Hayden Stone, Inc.	$ 75,000
78-60	8/28/81	Leon Mayer	$ 10,000
80-19	3/27/81	Ronald W. Harrison	$ 5,000
81-22	7/15/81	Boston Trading Group	$ 50,000
80-4	7/14/81	Dillon Gage, Inc.	$ 1,000
80-4	7/14/81	Stephen W. Miller	$ 1,000
79-60	5/6/81	Stephen M. Teplitz	$ 2,000
80-29	5/20/81	Arthur Kaplan	$ 25,000
81-11	5/22/81	Scott D. Gordon	$ 2,500
81-11	5/22/81	Harold H. Halford	$ 2,500
80-19	6/16/81	James P. Jarboe	$ 5,000
81-23	7/20/81	New York Mercantile Exchange	$200,000
78-7	7/21/81	Nelson Bunker Hunt W.H. Hunt Houston B. Hunt Elizabeth Hunt Curnes Mary Hunt Huddleston Ellen Hunt Flowers Douglas Hunt Hunt Holdings, Inc.	$500,000

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*/ Respondent was assessed a civil penalty equal to the amount remaining in an interest-bearing escrow fund after payment of reparation claims.

Docket No.	Order Dated	Respondent(s)	Amount
81-24	8/7/81	Anthony Spinale	$ 5,000
80-17	9/4/81	Bruce Zins	$ 5,000
77-8	8/31/81	Stewart E. Fason	$ 75,000
79-22	9/16/81	Stephen M. Sundheimer	$100,000
		Subtotal	$1,829,083.81

CIVIL PENALTIES IMPOSED IN FY 82

Docket No.	Order Dated	Respondent(s)	Amount
80-14	11-2-81	Robert L. Bone	$100,000
80-14	11-2-81	Roy L. Woods	$ 15,000
82-3	11-20-81	Prime Financial Services, Inc. Zowee Investment Corp. Prime Precious Metals Co. Prime Strategic Metals Co. Strategic Metals Internationale, Inc. Princeton Commodity Corp.	$200,000*
80-9	12-9-81	Arthur Murphy	$ 20,000
79-26, 79-53	1-6-82	Chartered Systems Corp. of New York Ltd.	$ 35,000
81-9, 81-17, 81-21	2-5-82	H. Paul Nesbit	$ 25,000
82-9	2-26-82	Rauscher Pierce Refsnes, Inc.	$ 20,000
78-65	2-17-82	Delta Commodities Corp.	$ 5,000
79-4	2-17-82	Delta Commodities Corp.	$ 5,000
80-21	2-23-82	Rosenthal & Co.	$ 30,000
82-13	3-10-82	King Commodity Services, Inc. and its successors	$ 5,000
82-11	5-5-82	Comark Commodities	$ 20,000
80-28	5-4-82	Gilbert Meierfeld	$ 15,000
80-28	5-4-82	S. Meierfeld, Inc.	$ 20,000
82-8	5-19-82	E.D.P. Commodity, Inc.	$ 10,000
79-44	7-12-82	Samuel N. Zack	$250,000**
77-22	8-02-82	John J. Muller	$ 7,000
81-13	8-9-82	Hak Ghun	$ 10,000
78-19	8-12-82	James Morse	$ 20,000
78-19	8-12-82	Peter A. Portuese	$ 20,000
78-19	8-12-82	John J. Webster	$ 20,000
80-5	8-19-82	Norman Turkish	$ 50,000
82-5	8-27-82	Emil Lawrence	$ 500
82-35	9-16-82	F.G. Hunters Associates	$ 15,000
81-18	9-16-82	Western Financial Management	$ 5,000
81-18	9-16-82	Charles Rietz	$ 12,500
81-18	9-16-82	Charles-Scott and Co.	$ 2,500
		Subtotal	$937,500

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*/ Respondents were assessed a civil penalty equal to the amount remaining in a $200,000 interest-bearing escrow fund after payment of the claims of respondents' customers.

**/ Respondent was assessed a civil penalty equal to his indebtness to Premex, Incorporated, $250,000, and any funds remaining with the escrow agent after three years from the date of the order are to be remitted to the Commission. Respondent filed a Notice of Appeal to the Commission on 8/2/82.

CIVIL PENALTIES IMPOSED IN FY 83

Docket No.	Order Dated	Respondent(s)	Amount
77-1	10-5-82	Vincent W. Kosuga	$ 4,000
83-6	11-17-82	Thomson McKinnon Securities, Inc.	$ 20,000
82-6	3-9-83	David L. Bentley a/k/a David Smith	$100,000
82-17	12-21-82	International Precious Metals Corporation	$200,000
78-54	1-3-83	Robert M. Rothlin	$ 25,000
78-65	1-24-83	Walter Strum	$ 1,000
78-65	1-24-83	Market Timer	$ 500
80-27	1-18-83	Harley Peters	$ 25,000
83-20	2-17-83	Refco, Inc.	$375,000
83-20	2-17-83	Thomas H. Dittmer	$150,000
83-15	2-15-83	Michael E. Singer	$ 10,000
83-11	2-25-83	Chris John Karris	$ 10,000
83-16	2-15-83	Sandy Baker	$ 10,000
79-37	2-28-83	First Regal Commodities, Inc.	$100,000
79-37	2-28-83	Steven Sawyer	$100,000
83-24	3-11-83	Joseph John DiGiso	$ 10,000
80-27	3-18-83	Odile Naud	$ 500
80-31	3-14-83	Bear Stearns	$ 80,000
83-20	3-30-83	Robert Jordan	$ 1,000
		Leonard F. Koblica	$ 5,000
83-28	3-31-83	Edward Kennedy	$ 30,000
82-6	3-9-83	David L. Bentley	$100,000
82-38	4-26-83	Al S. Polonyi	$ 15,000
		Subtotal	$1,372,000
		Total	$4,138,583.81

ADP

In your budget request, you report steady progress in the development of your "automated data processing system." (ADP)

Question: How much of your activities are now automated?

Answer: The two programs receiving considerable ADP support are market surveillance and registration. All the data collected under surveillance of the options pilot program is automated, as is most of the futures data. The registration program data is completely automated, with the exception of the new requirements imposed by the Futures Trading Act of 1982. Further, special analyses are now being performed as support to the Silver Study using statistical tools previously unavailable to the Commission. These advances have been made possible by interagency agreements for computer processing which have provided modern techniques such as data base management systems and telecommunications for all regional offices. As a result we are off-loading the applications systems from the old antiquated computer the Commission inherited from the Commodity Exchange Authority. We will soon be able to release the old computer system as the last application is now being converted.

In addition, administrative support is provided to all systems via the automated accounting and payroll systems.

The CFTC's request for an additional $670,000 would allow automation of additional activities in enforcement, legal counsel and administrative law.

Question: There was some confusion in considering the fiscal year 1983 budget request concerning the exact needs for ADP. Please provide for the record the amount of your budget request that is for ADP, as compared with last year's request and appropriation.

Answer: Last year's request was for $1.8 million. This amount was approved in the FY 1983 appropriation.

In January, the Futures Trading Act of 1982, which imposes substantial new requirements on the Commission, was signed into law. Therefore, the agency revised its 1983 estimate of expenditures to slightly over $2 million to reflect ADP support to the new requirements, especially the new registration requirements. The $2 million amount is used in the FY 1984 budget request as the estimate of FY 1983 expenditures. The Office of Management and Budget allowed the Commission to request an increase of $130,000 over this amount. The Commission, realizing the agency's serious need for ADP development funds, deferred an additional $100,000 from staff funds to ADP, making the total increase requested for FY 1984 $230,000 plus a small amount for inflation. (See Appendix B of the FY 1984 Budget Explanatory Notes.)

The Commission has asked Congress to reconsider OMB's denial of $670,000 additional dollars for ADP development which were cut by OMB from the Commission's FY 1984 budget request.

Question: Has OMB approved your request that $670,000 be restored to the fiscal year 1984 for ADP?

Answer: OMB has not approved our request to restore $670,000 to the Commission's budget.

FARM CREDIT ADMINISTRATION

STATEMENT OF DONALD E. WILKINSON, GOVERNOR

ACCOMPANIED BY:

LARRY W. EDWARDS, DEPUTY GOVERNOR, OFFICE OF SUPERVISION
GEORGE D. IRWIN, CHIEF ECONOMIST

INTRODUCTION OF WITNESS

Senator COCHRAN. We welcome to the subcommittee officials of the Farm Credit Administration. The Administration is responsible for supervising a coordinated agricultural credit system of farm credit banks and associations which make credit available to farmers and their cooperatives. The Farm Credit Administration supervises Federal land banks and associations, banks for cooperatives, Federal intermediate credit banks, and production credit associations, all of which are vital in the farm credit system of America.

Congress annually reviews and approves a limitation on administrative expenses. These expenses, which are funded by assessments against earnings of the 37 farm credit banks, are first approved by the Federal Farm Credit Bank. For fiscal year 1984, the President is requesting a limitation of $20.6 million, an increase of $2.4 million over the fiscal year 1983 limitation, including an additional amount for the pay increase.

We are pleased to have with us this morning the Governor of the Farm Credit Administration, Donald E. Wilkinson.

PREPARED STATEMENT

Governor Wilkinson, your 1983 Report to Congress will be made a part of the record in full. We invite you to make any comments you wish and to introduce your colleagues who are with you.

[The report follows:]

To Members of Congress

On behalf of the Farm Credit Administration (FCA) and its policymaking Federal Farm Credit Board, I appreciate this opportunity to provide the Agency's Annual Report to Congress on the condition of the Farm Credit System (System) in 1982 and on the performance of this unique system in carrying out its congressional mandate. In this report, we also provide our candid assessment of the "state of agriculture" and venture some comments about the troubled agricultural outlook for 1983.

The Farm Credit Administration, an independent agency directly accountable to Congress, is responsible for regulating, supervising, and examining the cooperative Farm Credit System in the public interest. Our Agency closely monitors activities of the System to ensure that they meet the specific objectives contained in the Farm Credit Act of 1971: "improving the income and well-being of American farmers and ranchers by furnishing sound, adequate, and constructive credit."

Included within the overall structure of the Farm Credit System are the Federal land banks (FLBs) and local Federal land bank associations (FLBAs), the Federal intermediate credit banks (FICBs) and local production credit associations (PCAs), and the banks for cooperatives (BCs). Each serves the agricultural community in different ways. The Federal land banks offer long-term first mortgage loans, secured by real estate, which are made through local Federal land bank associations to enable farmers to purchase real estate and refinance existing debt. Providing short- and intermediate-term credit, primarily for production purposes, is a function of the Federal intermediate credit banks and local production credit associations. Given new export authorities by Congress in 1980, the banks for cooperatives now offer expanded financing services to agricultural, aquatic, and public utility cooperatives.

Every one of the 12 Farm Credit districts which make up the Farm Credit System has a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. The Central Bank for Cooperatives is located in Denver, Colorado. These district banks operate under the direction of a district Farm Credit board of directors, six members of which are elected by local associations and cooperatives. The seventh member is appointed by the Governor of FCA. The local associations of the Farm Credit System also operate under the direction of boards elected by member/borrowers.

Farm Credit System institutions are borrower-owned credit cooperatives, which operate on a self-sustaining basis without any expenditure of taxpayer dollars. The System obtains the money it lends through the sale of securities in the Nation's financial markets. The expenses of the Farm Credit Administration are borne solely by the System through an assessment to the various Farm Credit banks.

The Farm Credit Administration is fully committed to ensuring that the System provides sound, adequate and constructive credit to eligible borrowers in both good times and bad. Just as we recognize that agriculture is the backbone of the U.S. economy, we also believe that maintaining a healthy Farm Credit System is essential for a productive agricultural sector. These are difficult economic times, and System institutions are vulnerable to the same factors which are adversely affecting all other financial institutions. A very small, but growing, number of PCAs are under severe stress.

PCA losses of the past three years are more than the combined losses of the preceding 47 years. Nevertheless, the System, through its 50 years of building prudent reserves, is well equipped to absorb these losses and weather the current crisis in agriculture. It is our belief, based upon careful supervision, examination and regulation, that the Farm Credit System is both sound and capable of meeting the challenges ahead.

Donald E. Wilkinson

Donald E. Wilkinson
Governor

Highlights

Agricultural Conditions
The farm sector faces its fourth consecutive year of difficulty. **Net farm cash income** for 1982 might reach the $31.5 billion attained in 1981 (page 5). Looking forward to 1983, **net cash income** for farmers may be slightly higher than that for 1982 (page 5). For the first time in over 10 years, **U.S. agricultural exports** dropped, both in terms of dollar value and volume, during FY 1982. Agricultural exports fell to $39.1 billion from the $43.8 billion gained the previous year (page 5). As of January 1, 1983, the estimated real value of **farm assets declined** by about 8.3 percent from the previous year, due largely to a 5-percent drop in nominal land values (page 5). During 1982, **farm sector net worth** dropped sharply, also a result of the decline in land values. Farmers Home Administration **(FmHA) direct loan activity fell off steeply** from last year's levels, partly because of the temporary discontinuation of the economic emergency loan program. Commodity Credit Corporation **(CCC) price support and storage loans,** as well as direct program payments to individual farmers, **registered significant gains** over 1981 (page 8). The overall financial health of the System is sound, although a **portion of** its **borrowers** are **under financial stress.** (page 8).

Farm Credit System Funding
Farm Credit System institutions operate on a **self-sustaining** basis **without any** expenditure of **taxpayer dollars.** Rather, they pay market rates to obtain loan funds through the sale of securities in the U.S. financial markets. Farm Credit securities are not guaranteed by the Federal Government (page 10). Farm Credit **borrowers pay variable interest rates,** which are based on the average cost of bonds outstanding. The Federal land banks (FLBs) closed the year charging an average interest rate of 12. 23 percent. At the end of the third quarter, production credit association (PCA) rates averaged 13.75 percent. Bank for cooperatives' (BC) borrowers were paying an average interest rate of 11.5 percent for seasonal loans and 12.73 percent on longer term loans on December 1. (page 12).

Farm Credit System Loan Volume
The Farm Credit **System had $81.3 billion in loans outstanding** as of October 31, 1982, an increase of 10.5 percent over the same date 1 year earlier. FLB loans outstanding on October 31, 1982, reached $50.2 billion, also a 10.5-percent increase. PCA loans outstanding were up only 1.5 percent from 1981 and stood at nearly $22.0 billion on October 31, 1982. BC loans outstanding as of October 31, 1982, were down to $8.3 billion, a decrease of 11.8 percent from a year earlier (page 16).

Farm Credit System Loan Quality
Loan losses in the Farm Credit System were **up,** compared to 1981, but still represent a small percentage of loans outstanding. BC loan losses as of December 31, 1982, were $10.6 million representing just .127 percent of BC loans outstanding. On December 31, 1982, Federal intermediate credit banks (FICBs) and PCAs had losses of $160.4 million, or .75 percent of loans outstanding. FLB losses on December 31, 1982, stood at $1.5 million, only .003 percent of FLB loans outstanding. (page 18). In this difficult period for agriculture, Farm Credit **System institutions continue a policy of forbearance,** working with distressed borrowers so long as any reasonable prospect for recovery exists. (page 19).

Farm Credit System Share of Farm Debt
The Farm Credit **System's share** of total **farm debt** is holding steady **at 32 percent** for 1982. The FLBs have emerged as the major supplier of farm real estate-secured lending with a 42-percent share. The PCAs' share of nonreal estate farm debt, stood at about 19 percent at year's end, a further slight drop from 1981. Farmer cooperatives continue to rely on the BCs for over 60 percent of their credit needs (page 22).

Special Lending Programs
Commercial banks, through ownership interest in **other financing institutions,** had $942 million in loans outstanding with FICBs as of October 31, 1982. Under the **PCA participation program,** involving an overline-type arrangement between a commercial bank and a PCA, 301 banks had $156 million in loans outstanding. The **BCs'** newly implemented **authority to finance international agricultural trade of cooperatives** resulted in $107.7 million in loan activity as of October 31, 1982. **Aquatic lending** by System institutions has dropped off slightly from 1981, amounting to $445.4 million in late October. FLB and PCA **rural home lending** comes to $3.1 billion as of October 31, 1982. The **BCs** had approximately **$1.23 billion** in loans outstanding **to rural electric cooperatives,** down 2 percent from 1981. (page 24).

Farm Credit Administration
In 1982, nearly all major segments of agriculture experienced reductions in income. Accordingly, **System activities and FCA supervision** have **concentrated on servicing the existing loan portfolio** to ensure that all tools available are being used to assist borrowers. (page 28). Farm Credit borrower/owners pay for the borrowed funds, all expenses of the System, and even the Government examination and supervision by FCA. FCA expenses for 1982 were only .018 percent of loans outstanding (page 31).

Agricultural Conditions

Unfortunately, a fourth consecutive year of serious difficulty looms on the horizon for much of the agricultural economy. Neither domestic nor foreign demand prospects figure as likely candidates to work down burdensome grain stocks in the current marketing year. The anticipated recovery in the U.S. general economy will take time to translate into a stronger demand for food and fiber. More pertinent to the cash grain sector would be improved economic conditions within the major grain importing nations or some shift downward in the value of the dollar relative to their currencies. These nations' lack of growth and general financial difficulties have caused total world grain trade and use to stagnate during the past several years. Measures now being developed to further reduce 1983 crop acreages should be helpful in avoiding a further buildup of stocks at the end of 1983. However, barring an unlikely confluence of several favorable events, the 1983 farm programs will do no more than stabilize prices.

On the surface, conditions in the farm sector appear similar to a year ago—large supplies confronted by weak demand, with livestock producers facing a better price/cost outlook than crop producers. Unlike last year, the prospect for a quick reversal is much more distant, particularly in the case of cash grain and cotton producers.

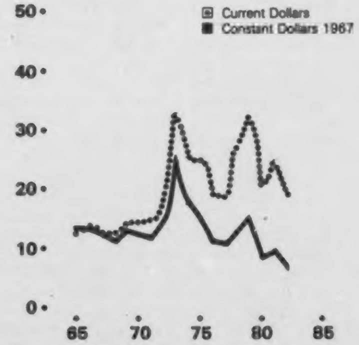
Back-to-back recordbreaking U.S. crops have given rise to a situation that would normally signal livestock expansion. Despite such a signal, however, livestock producers have been cautious in making production decisions. Our meat and poultry output, led by hefty reductions in pork, has been reduced generally in line with a weakened domestic demand. Relatively low feed costs generated favorable margins during 1982, and margins are expected to be slightly higher during 1983.

Farm Income and Expenses

The cash flow problems that farmers have been facing are expected to continue in 1983. Overall cash receipts from farm markettings have been fairly stable during the past 3 years, while growth in production expenses has only begun to slow noticeably during the past year. In 1982, cash receipts from farming are expected to be only slightly lower than 1981, while expenses are estimated to be slightly higher.

Net Farm Income

$Billion



Net farm income after inventory adjustment; CPI used as deflator; 1982 forecast.

1981 Unit Cost of Production Estimates and Season Average Farm Prices, 1981/82 with Forecast Ranges for 1982/83

Commodity	Unit	1981 Per Unit Costs* All Costs	1981 Per Unit Costs* Variable	Season Average Farm Price 1981/82	Season Average Farm Price 1982/83f
			$/Unit		
Corn	Bu	3.40	1.42	2.45	2.15–2.35
Sorghum	Bu	3.60	.28	2.25	2.15–2.30
Oats	Bu	3.54	1.12	1.90	1.40–1.55
Barley	Bu	4.22	1.42	2.50	2.10–2.25
Wheat	Bu	5.96	2.07	3.65	3.40–3.50
Rice	Cwt	11.32	5.94	9.25	7.50–8.25
Soybeans	Bu	7.54	2.71	6.08	5.25–5.75
Peanuts	Lb	0.316	0.170	0.268	0.24–0.26
Cotton	Lb	0.906	0.576	0.547	0.55–0.58

*The land charge in "all costs" is based on share rental charge for land.

f = Forecast range during or immediately following the November/December USDA Outlook Conference. The cotton forecast is from a private source: USDA is prohibited from forecasting cotton prices; 1981/82 cotton price is for the first 8 months only.

Despite recent declines in rates, interest expenses were again one of the leading factors pushing total farm expenses up in 1982. The U.S. Department of Agriculture (USDA) estimates that interest charges exceeded $22 billion—about 15 percent of total farm production expenses and nearly double the share they took 10 years ago.

Neutralizing the anticipated small decline in cash marketing receipts and rise in cash operating expenses was a $2 billion plus jump (a doubling) in direct Government payments, which could maintain the 1982 net cash farm income near the $31.5 billion obtained in 1981.

Outlook for 1983
This slowing in farmers' growth of expenses will most likely continue in 1983, due to both the reduction in general inflation and a cutback by farmers in their operations. The cutback would follow from greater participation in the acreage reduction programs and farmers' continued attempts to stretch the use of production inputs. Lower interest rates are also providing significant relief to farmers who rely heavily on credit. However, these same conditions suggest reduced volume and continued pressure on margins for farmer cooperatives and other agribusinesses.

Cash receipts from crops are expected to remain below the 1981 peak and, in real terms, stay at the low levels of recent years. Acreage reduction programs are likely to decrease production, but total sales of farm products could hold steady as over-supplies are worked out over the next 2 years. Livestock prices may increase slightly, with overall meat production holding near the reduced 1982 levels. This should cause livestock cash receipts to gain somewhat over 1982. If this is the case, total cash receip[illegible] ay be level with 1982. Government payments to individual farmers will remain near the 1982 levels, assuming the availability of advanced payments once again in 1983 and no major modification of crop programs. Other cash income may increase slightly in view of an expected weak economic recovery. Therefore, gross cash income should be about the same as or possibly a little higher than the 1982 levels, depending on the degree of improvement in global economic conditions.

Total production expenses should continue moderating their upward trend and could even dip slightly due to reduced acreages and the cash flow pressures to minimize input usage; thus net cash income may be slightly higher than that posted for 1982.

U.S. Agricultural Exports
For the first time in over a decade, U.S. agricultural exports did not set a record high in fiscal year (FY) 1982, either in terms of volume or dollars. The dollar value of FY 1982 exports fell to $39.1 billion from $43.8 billion during the previous fiscal year, the first such decline in 12 years. FY 1982 was the fourth consecutive year of relatively flat export volume, with volume 3 percent below that of FY 1981.

For 1983, lower farm prices means we could see a significant drop in the value of farm exports for the second straight year. With our agricultural imports holding steady, we are also likely to see a second sizable drop in the U.S. agricultural trade surplus. The surplus reached $26.6 billion in FY 1981, but slid to $23.7 billion last year, and could well drop several more billion dollars in FY 1983.

A major factor contributing to our rapid growth in agricultural exports during the 1970s was the expansion of worldwide credit. This expansion has run its co[illegible] as the list of countries having extraordinary credit problems includes some of our important farm markets. While there is general confidence that the international financial system will be able to absorb the needed debt restructuring, the difficulties will not quickly disappear. We will most likely see a further slowing in the growth rate of world trade and U.S. agricultural exports, in particular, as the current difficulties will continue to constrain the ability of many nations to satisfy their food import needs. The strong dollar has added to the importing nation's problems because our goods have become more expensive in international markets despite lower domestic farm prices.

If, as seems likely, the United States recovers faster than the rest of the world from its recession, this could, at some point in 1983, start to bring the dollar down to more normal levels. In time, such a shift in exchange rates should encourage exports.

Farm Assets
On January 1, 1983, the dollar value of farm sector assets was estimated at $1,070.0 billion—$21.8 billion or 2 percent lower than the (preliminary) January 1, 1982, dollar value. Because the general price level for the same period was estimated to have increased by around 7 percent, the real value of farm assets has declined by about $46.3 billion or 8.3 percent. The major factor in this decline was a 5-percent drop in nominal land values (or a 10.5-percent decline in real values), coming in the wake of continuing low farm income.

The depressed earnings in the farm sector have begun to take a serious toll on the balance sheets of farmers. The increase in land values during the 1970s outstripped earnings in shaping the equity growth of farm investors and, to a large extent, in justifying t[illegible] debt expansion.

Actual earnings through sound production management, played a backstage role and this, undoubtedly, encouraged some financial decisions which would not have been made in hindsight.

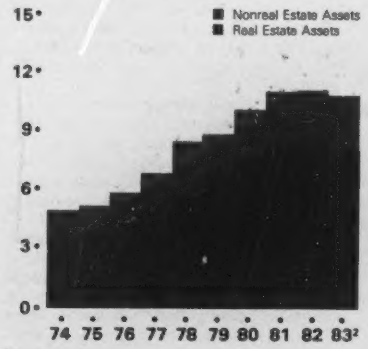
Estimates of the rest of the January 1, 1983, farm asset levels underscore some of the concerns that have developed over the past 2 years. Financial assets have increased at a 2 to 3 percent pace since 1975, and probably continued to do so in 1982. Although livestock numbers were cut back in 1982, increases in prices more than offset the decline, causing the value of livestock inventories to rise. The opposite is true for crop inventories; another record output in 1982 resulted in huge crop inventories. The total value of these inventories is up even though crop prices are down. The depressed farm situation held the purchase of household equipment and furnishings and farm equipment to a minimum last year.

Farm Debt and Equity

The picture on the "claims" side is discouraging. Led by the decline in land values, the farm sector net worth dropped sharply last year. During 1982, farmers again increased their holdings of debt, although continued poor income prospects caused the increase to be less than that of 1981. Total farm loans outstanding in 1982 increased only 6.5 percent to an estimated $215 billion at year-end, after 10.9 and 9.7 percent increases in 1981 and 1980, respectively.

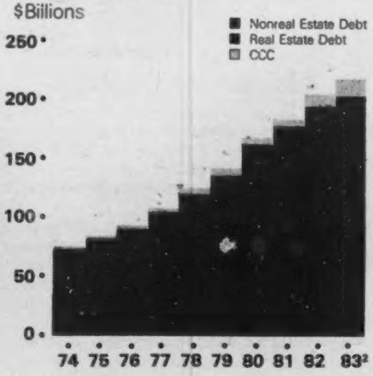
Agricultural real estate debt outstanding increased 4 percent during 1982 to $110 billion, following 10.7 and 11.7 percent rises in 1981 and 1980. Nonreal estate farm debt outstanding increased by 9 percent during 1982, after increasing by 11.2 percent in 1981. The level of nonreal estate debt including Commodity

Balance Sheet of Farm Sector—Assets[1]



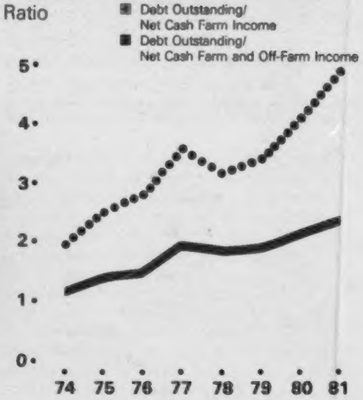
[1] As of January 1.
[2] Preliminary.

Farm Debt Outstanding—Real Estate Debt and Nonreal Estate Debt[1]



[1] As of January 1.
[2] Preliminary.

Ratio of Farm Debt Outstanding to Income



Credit Corporation (CCC) lending, stands at $105 billion, as continued low income in 1982 prevented the typical seasonal paydown of production debt. Although much of the short-term increase (about $5 billion) was due to nonrecourse loans, the remaining maturing short-term obligations continue to cause cash flow difficulties for the cash poor farm sector.

1983 Balance Sheet Changes
By the end of 1983, the decline in the land prices may have run its course. Land values could stabilize if farm income prospects for 1984 improve with the expected improvement of the U.S. and world economies and if there is reasonable success in controlling the size of the 1983 world crop. Combined with small increases in livestock inventory holdings and small decreases in crop inventories, this stability suggests that total asset values may hold steady over the year. On the "claims" side, the low level of income seen for the year will again cause some declines in net worth; but if land prices stabilize, the drop in net worth should not be as severe as that of FY 1982. Both short-and long-term debt outstanding will most likely increase by less than was the case in 1982, and short-term debt will continue to build at a greater rate than long-term debt.

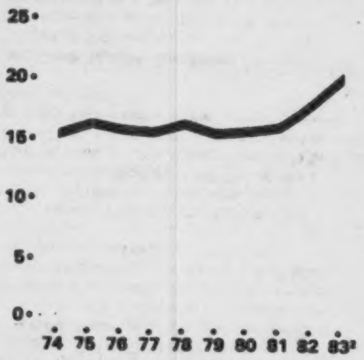
Given these projections for 1983, the overall debt-to-asset ratio in agriculture could rise above 20 percent by the end of the year. Relief may be forthcoming in 1984 if farm income improves and land values recover. In that case, farmers may be able to pay down or at least extend the maturity of some of their debt. Without a quick reversal of the fundamental supply/demand situation facing U.S. farmers, the adjustment process to a sounder financial base would take more time.

As is alwayr case, these sector figures are comprised of widely varying individual farm situations. Livestock producers are in a relatively better situation than crop producers. Those with conservative debt loads are in a better cash situation than those with heavy debts. Credit quality data, to be presented in more detail later in this report, suggest that a small but significant portion of farmers are in extremely difficult financial shape.

Government Loans and Payments
The private lending institutions of the Farm Credit System are, of course, affected by Government loans and payments. The Farmers Home Administration (FmHA)—considered "the lender of last resort" for agricultural producers—extended 97,422 direct loans amounting to $4 billion under its four largest farm programs during 1982. This represents a 53 percent decline in number and a 57.5 percent drop in volume from FY 1981. These four programs represent a little less than one-half of FmHA's total 1982 direct and guaranteed loan volume of $9.1 billion.

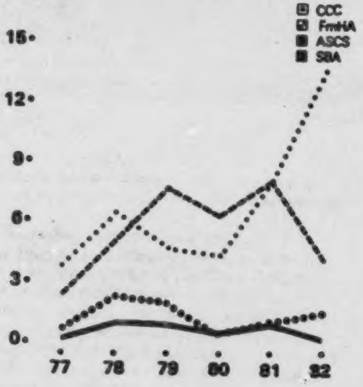
Contributing to the steep decline in FmHA loan activity was the temporary discontinuation of the economic emergency loan program. In FY 1981,

Debt/Asset Ratio of Farm Sector[1]
Percent



[1] As of January 1.
[2] Preliminary.

Total Government Agricultural Loans Made and Direct Payments
$Billions



the FmHA extended 27,348 economic emergency loans, totaling $1.25 billion. In FY 1982, the Secretary of Agriculture did not exercise this authority.

Under the natural disaster loan program, 42,863 loans amounting to $2.2 billion were extended. Still, this volume was down almost 70 percent from FY 1981. FmHA has budgeted $1.54 billion in natural disaster loans for FY 1983. However, because this program is classified as an "open ended, as needed" account, loan volume is subject to change based on weather conditions.

As an integral part of the Administration's reduction of Government activity in credit markets, FmHA's farm ownership real estate loans were reduced by 17 percent to $658 million. Of the applications received for real estate loans, only 10,189, or approximately 40 percent, were approved by FmHA.

FmHA farm operating loans made during FY 1982 increased 46 percent from $823 million to $1.2 billion, and the number of borrowers served climbed 50 percent to 44,370. Appropriations for FY 1983 increased funding by an additional 21 percent to $1.4 billion.

Farm Programs

Commodity Credit Corporation's price-support and storage loans outstanding at the end of 1982 are estimated at $13.6 billion, an increase of 70 percent over the $8 billion in loans outstanding at the end of 1981. These 2 record years of CCC nonrecourse loan activity reflect the severe crop-price situation. Direct program payments totaled $4 billion in 1982, a sharp increase over 1981 payments.

For 1982 programs, the main incentive for participation in USDA farm programs was eligibility for CCC loans. Target price protection was a less obvious benefit, except for cotton and rice producers. For 1983, there are several major attractions centering on payments intended to encourage participation and to place cash in the hands of producers as quickly as possible, through advances of a portion of the diversion and deficiency payments.

The existence of the advanced payments, together with the continued poor crop-price expectations suggest that 1983 could see a sharp increase in nonreal estate debt held by the CCC, as well as a significant jump in the portion of farm income in the form of Government payments.

Farm Credit System Conditions

The overall financial health of the Farm Credit System remains sound, despite the obvious financial stress now being felt by a portion of its borrowers. Substantial equity positions have been built up through years of sound operation, and capital ratios are being maintained at prudent levels so as to ensure the continued attractiveness of Farm Credit System bonds for investors who purchase them in private U.S. financial markets.

As was true with agriculture generally in 1982, this year has witnessed a drawing down on some of the financial reserves of the System. In a few cases, FICBs have invested capital in PCAs because of large losses. As a result of 1982 economic conditions, it may become necessary to merge or liquidate approximately half a dozen associations. That possibility, however, would affect only a small portion of the 474 FLBAs and 420 PCAs. While more evidence of individual stresses will continue to surface during 1983, the basic financial strength of the System will allow these associations to be handled without any risk to investors in Farm Credit bonds.

For the longer term, an improvement in farm income prospects is essential to the economic health of both farmers and the Farm Credit System. A long period of weak crop prices and declining land values would have grave consequences for both. This danger is widely recognized in the Congress and in the Administration, and farm programs being put into place for 1983 represent a major effort to avoid such a prolonged adverse period.

In the remaining sections of this report, we will cover in greater detail the situation facing the Farm Credit System.

Farm Credit System Funding

The private institutions of the Farm Credit System raise their own funds for lending purposes through the sale of securities to investors in major U.S. financial markets. The Farm Credit banks issue consolidated bonds and discount notes through a Fiscal Agency, located in New York City, which is jointly owned by all 37 banks. System bonds are sold by a nationwide group of securities dealers. Investors in Farm Credit System securities include commercial banks, insurance companies, pension and trust funds, state and local governments, thrift institutions, foreign governments, and individuals.

This process of channeling capital from the urban money centers to American farmers and ranchers began with the issuance of Federal land bank securities in 1917, was followed by the first Federal intermediate credit bank issues in 1924, and by bank for cooperative issues in 1950. In 1977, the three banking groups first offered consolidated securities. Currently, the Farm Credit System offers investors Federal Farm Credit Banks Consolidated Systemwide Bonds and Federal Farm Credit Banks Consolidated Systemwide Notes.

Farm Credit securities are not guaranteed by the Federal Government. Rather, they are backed by the mortgages and the notes of Farm Credit borrowers and the net worth of Farm Credit banks. Recognizing the farmers' need for a stable supply of credit, as well as the benefits of a well-financed agriculture to the U.S. economy, Congress created the Farm Credit System and endowed its securities with certain unique characteristics that promote marketability. Taken together, these characteristics are viewed by the money market as constituting ''agency status.'' Because its securities have this ''agency status,'' the System can provide creditworthy producers with sound financing under all economic conditions in all areas of the country.

''Agency status'' is not a Government guarantee for payment of principal and interest on agency securities. It does provide a ready market for System securities at a cost that is primarily a function of the System's perceived financial strength.

Over the years, Farm Credit System securities have built an excellent reputation among financial market investors based on strong financial statements and sound lending practices. During their 66-year history of selling securities, Farm Credit banks have never failed to pay interest and principal when due.

During 1982, FCA analyzed a number of proposals that seek to change the Farm Credit System's funding mechanism, either by removing some of the unique characteristics that give System securities ''agency status'' or by including Farm Credit System borrowing from the money markets in a Federal credit budget. Both of these concepts, if implemented, would defeat the purpose for which the Farm Credit System was set up: to provide a reliable source of sound credit for agriculture.

Inclusion of the Farm Credit System in a credit budget would severely limit the amount of money available for the System to serve agricultural needs. Depending on the limit applied to the System in a credit budget, Farm Credit institutions might be forced to allocate credit or, if restrictions were more stringent, the System might not be able to roll over outstanding securities—resulting in a depletion of its reserves and surpluses and, finally, default on its securities.

Removing the ''agency status'' of Farm Credit securities would significantly diminish their attractiveness to investors, make it far more difficult for the System to raise an adequate supply of money and, in the end, increase the interest rates that farmers have to pay. As a result, qualified farmer/borrowers would no longer be assured of obtaining the credit they need from System institutions to continue funding their operations. Curtailment of the System's ability to sell its securities could also produce the same consequences as inclusion in a credit budget—credit allocation or depletion of reserves and surpluses, bankruptcy, and default.

Under the supervision of FCA, Farm Credit System banks are required to provide sound and constructive credit to farmers, ranchers, and harvesters of aquatic products. In order to do so, the banks must be able to obtain sufficient and reasonably priced funds. The current mechanism for funneling capital from the money markets to the farms has been used very effectively and successfully by the System.

Interest Rates for 1982

Monetary policy and the demand for business loans were the crucial elements in determining interest rates in 1982. Although the Federal Reserve (Fed) had declared its intention of allowing the money supply to grow at a rate not to exceed 5.5 percent, diminished demand was expected to offset pressure on interest rates as 1982 began. This did not occur; instead, as interest rates rose in response to the limited supply of money, businesses increased borrowings in the short-term market against the time when long rates would decline. This exacerbated an already tight money situation and sent rates to their 1982 high in mid-February. The prime rate, for example, rose 125 basis points (1 basis point equals .01 percent) from 15.75 percent to 17 percent from December 1981 to February 1982.

As money supply growth began to fall to acceptable levels during the second quarter, the Fed began to relax its control. By mid-year, however, despite the Fed's action, interest rates remained high, causing the economy to remain depressed.

In July, the Federal Reserve initiated a series of seven cuts in the discount rate that reduced it from 12 percent to 8.5 percent by year-end. The prime dropped in this period from 16.5 to 11.5 percent, while 20-year Treasury bonds fell by 300 basis points to approximately 10.5 percent. Six-month Farm Credit bonds fell from a high of 14.45 percent to 8.55 percent during this period.

In October, the Federal Reserve took further steps, which may have had the effect of supporting a weak economy through lower interest rates. It announced that it would temporarily discontinue using M-1 (checking accounts plus currency), as a basis for policy decisions. The rationale was that this measure of money supply had been distorted by the redemption of All-Savers certificates and the introduction of new money market instruments. From the first week in October through December, money supply rose at an annual rate of 13.2 percent. It is not clear whether the entire deviation above the 5.5 percent target ceiling was due to such distortions.

Outlook for 1983

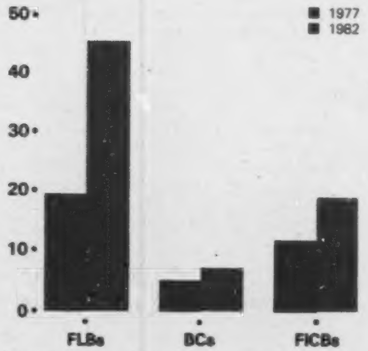
Many economists believe that the Federal Reserve has abandoned the use of growth targets of money supply to dictate policy. Instead they believe that the level of interest rates in relation to the economy will influence Fed policy during recessionary periods. As 1983 begins, with the economy only slowly dragging itself out of the recession, it is unlikely that the Fed will inst a tightening policy soon. The outlook, therefore, is that interest rates will continue to drift lower, level off toward mid-year, and possibly show some upward movement by year-end, as recovery stimulates loan demand.

Farm Credit System Market Activity

The Farm Credit System's participation in the bond market declined significantly during FY 1982. As of December 1, 1982, the System had $71.1 billion in bonds outstanding, a 1.7-percent increase between the end of 1981 and 1982, in contrast to a 17.1-percent increase between December 1980 and 1981. Declining loan demand caused the System's demand for new money in the bond market to drop precipitously to $1.3 billion in 1982, following 3 consecutive years of annual increases of $10.0 billion or more. The System's gross volume of bonds issued amounted to $47.4 billion, a 14.8-percent decline from 1981 volume. The level of gross short-term issues totaled $35.0 billion, equivalent to $4 billion less than the amount of maturing issues. Of the remaining $11.85 billion in term issues, $6.58 billion was raised to refinance maturing issues, and the remaining $5.27 billion was new money.

Amount of Bonds Outstanding 1977[1] vs 1982[2]

$Billions

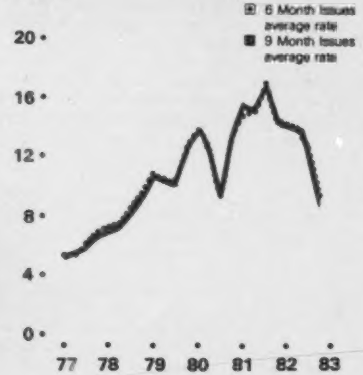


[1] FLB figures as of October 20, 1977 term sale; BC & FICB as of December 1, 1977 bond sale.

[2] As of December 1, 19 nd sale.

Average Quarterly Interest Rates on Farm Credit 6 and 9 Month Bonds

Percent



The rates on short-term Farm Credit System securities peaked twice in 1982, reaching 14.5 percent at the end of March and 14.65 percent at the end of June. These peaks were considerably lower than the System record rate of 17.85 percent set in August 1981. In the second half of 1982, the System experienced a drastic reduction in its cost of funds. Between June 30 and November 30, the rates paid on 6-month securities plunged 5.8 percentage points from 14.5 to 8.7 percent.

If, as expected, the economy remains in a weak position as 1983 begins, and the Federal Reserve continues to pursue an accommodative monetary policy, the System will likely experience a further easing of interest rates. This would enable the System to reduce its average cost of funds through the first half of the year before it levels off over the balance of the year.

Farm Credit System Rates

The Farm Credit System prices most of its loans using a variable rate determined by the average cost of bonds plus a spread for operating costs. As rates decline, the average cost of funds declines, but not as fast as market rates. Just as System rates lag increases in market rates during periods of rising rates, they also come down more slowly.

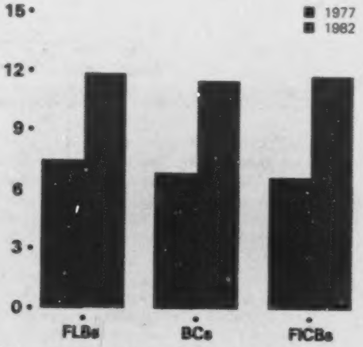
Federal Land Bank Rates

Average Federal land bank rates on farm real estate loans remained virtually constant throughout 1982, and are expected to remain fairly static during 1983.

Because the FLB portfolio consists of nearly 90 percent term bonds and only 10 percent 6- and 9-month securities, the FLB could not take full advantage of the drastic reduction in short-term rates in the second half of the year. During the

Average Cost of Bonds Outstanding 1977[1] vs 1982[2]

$Billions

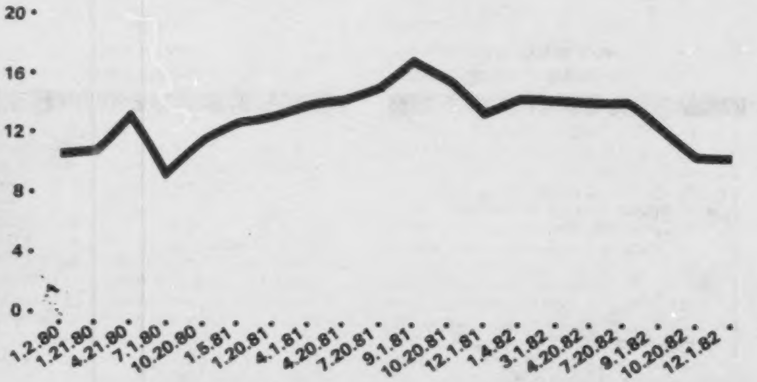


[1] FLB figures as of October 20, 1977 term sale; BC & FICB as of December 1, 1977 bond sale.

[2] As of December 1, 1982 bond sale.

Interest Rates on Farm Credit System 5 Year Bonds

Percent



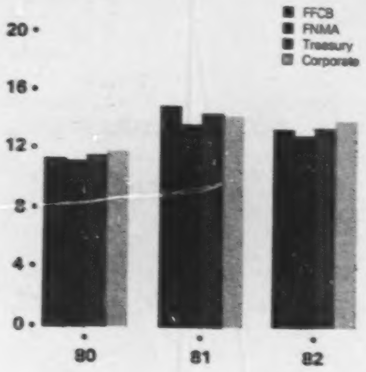
year, the FLBs retired $5.55 billion in term bonds bearing a weighted average interest rate of 8.8 percent. These relatively inexpensive issues were replaced with $9.98 billion in term bonds at a considerably higher cost of 13.4 percent, thus negating the effect of lower short-term rates.

The year opened with FLBs charging an average rate of 12.12 percent to its farm real estate borrowers and closed with FLB borrowers paying an average rate of 12.23 percent, with minimal fluctuation over the course of the year. Similarly, the FLBs' average portfolio cost experienced minimal change, beginning the year at 11.65 percent and ending at 11.88 percent. In 1983, the FLBs will be retiring $6.0 billion in term issues, bearing an average cost of 10.0 percent. With only a slim chance of term rates falling much below 10 percent in 1983, the FLBs will once again experience very little fluctuation in their average funding costs, which will be reflected in fairly constant rates to land bank borrowers.

The FLBs also extend loans for certain rural residences. The average FLB rural home loan rate stood at 12.58 percent on December 1, 1982, which was higher than the December 1, 1981, rate of 12.35 percent, but lower than the mid-year peak of 12.69 percent. Average rates on farm-related business loans were 12.34 percent at the end of 1981, and climbed to 12.73 percent by June of 1982, leveling off to 12.6 percent by year-end.

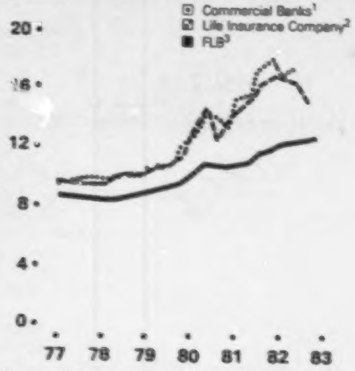
Federal Intermediate Credit Bank/ Production Credit Association Rates
In the first quarter of calendar year 1983, approximately 35 percent of the Federal intermediate credit banks' portfolios will mature. As these portfolios contain issues sold at rates as

Comparative Rates on 5 Year Bonds



Interest Rates Charged on Farm Real Estate Loans

Percent



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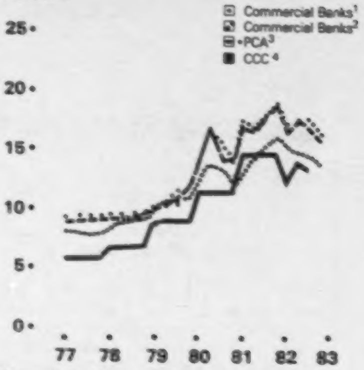
[1] Minneapolis Federal Reserve District average interest rate on long-term real estate loans.

[2] No data beyond 1979.

[3] Excludes stock purchar d Other Fees.

Interest Rates Charged on Farm Nonreal Estate Loans

Percent



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[1] Chicago Federal Reserve District Feeder Cattle loans.

[2] Minneapolis Fed. Reserve Dist. Nonreal Estate Farm loans.

[3] Excludes stock purchases and other fees.

[4] Crop year basis.

high as 14.5 percent, the average cost of the FICB portfolio will decline dramatically when maturing issues are redeemed or refinanced. The interest cost on funds in the FICB portfolios could fall to between 10 and 11 percent during the first quarter of 1983—a significant drop from December's cost of 11.74 percent. In turn, this reduction will trigger lower rates at the production credit associations where rates to farmers averaged 13.75 percent in October. As rates are expected to continue declining moderately through the first quarter of 1983, PCA loan rates for spring planting should be significantly below the October rate.

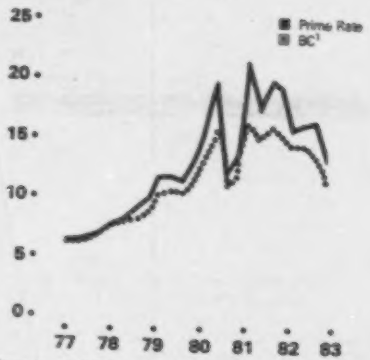
Bank for Cooperatives Rates

In early 1982, the expensive short-term issues of June through August 1981 matured, helping the banks for cooperatives to lower their average cost of funds from 14.0 percent at the beginning of 1982 to 13.1 percent by June. In the second half of the year, the BCs' average cost of funds declined 1.7 percentage points, from 13.1 percent on June 1 to 11.4 percent on December 1. If short-term Treasury rates average 8 to 10 percent in 1983, the BCs could experience an additional 1 percentage point decline in average funding costs by mid-1983, before leveling off the balance of the year.

The BCs' lower funding costs were reflected in lower interest rates charged to cooperative borrowers. Average seasonal rates on BC loans declined from the early 1982 rate of 14.3 percent to 11.5 percent by December. Longer term loans were extended at an average rate of 14.0 percent on January 1, 1982, and at a lower rate of 12.73 percent on November 1.

Banks for Cooperative Seasonal Rate vs Prime

Percent



[1] Excludes Stock Purchases and Other Fees.

Farm Credit System Loan Volume

The Farm Credit System had $81.3 billion in loans outstanding on October 31, 1982, 10.5 percent more than a year ago. For the first 10 months of 1982, the annual rate of growth in System loans outstanding was 4.9 percent, down from the 17.0 percent during the first 10 months of 1981.

Federal Land Banks
Total FLB loans outstanding reached $50.2 billion by October 31, 1982, 10.5 percent greater than the same date a year earlier. Land bank loans outstanding grew at an annual rate of 9.6 percent during the first 10 months of 1982, down from 23.3 percent for the same period in 1981. The number of FLB loans outstanding increased by 4.5 percent over year-earlier levels to 667,861 at the end of October 1982. The average FLB loan was for $75,105 on October 31, 1982, 5.1 percent more than a year earlier.

Production Credit Associations/
Federal Intermediate Credit Banks
PCA loans outstanding stood at nearly $22.0 billion at the end of October 1982, down 2.5 percent from a year earlier. The annual rate of growth in PCA loans outstanding was 1.5 percent for the first 10 months of 1982, compared to 14.1 percent during the first 10 months of 1981. The number of PCA members with loans outstanding decreased by 3.1 percent during the year ended October 31, 1982, to 375,446. The average PCA loan outstanding was for $58,454 on that date, only 0.7 percent above levels from the previous year.

FICBs had an additional $942.0 million in loans outstanding to other financing institutions (OFIs) on October 31, 1982. This was 3.7 percent less than on the same date a year earlier.

Banks for Cooperatives
On October 31, 1982, the BCs had $8.3 billion in loans outstanding, a decrease of 11.8 percent from year-earlier levels. BC lending is particularly sensitive to changes in interest rates charged by other lenders and to commodity lending by the CCC.

System Lending Activity

as of October 31
$ Thousands

Federal Land Banks	**1981**	**1982**
Number of loans outstanding	639,275	667,861
Amount of loans outstanding (000)	$45,385,570	$50,159,731
Number of loans made during year	97,875	70,609
Amount of loans made during year (000)	$11,901,355	$ 8,416,228

Production Credit Associations*	**1981**	**1982**
Number of members with loans outstanding	387,622	375,446
Amount of loans made during year (000)	$35,224,241	$33,240,872
Amount of loans outstanding (000)	$22,496,415	$21,946,255

Federal Intermediate Credit Banks	**1981**	**1982**
Loans made to other financing institutions during year (000)	$ 2,030,580	$ 2,047,127
Loans outstanding to other financing institutions (000)	$ 977,914	$ 941,963

Banks for Cooperatives	**1981**	**1982**
Number of cooperatives with loans outstanding	3,536	3,461
Amount of gross loans outstanding (000)	$ 9,400,481	$ 8,288,123
Amount of loans made during year (000)	$24,851,378	$23,736,185

*PCAs obtain loan funds from FI

Farm Credit System Loan Quality

The Federal land banks and Federal intermediate credit banks, as part of their supervisory responsibility, maintain credit review teams who review loans and credit administration and also classify loans in each association on an annual basis. FCA's Office of Examination reviews a select number of associations in each district during its annual examination of each bank to ascertain the adequacy of the bank reviews and particularly the credit classifications the bank has assigned to the association loan portfolio. Banks for cooperative loans are classified by FCA examiners as part of the routine examination process. System loans are thus classified into four quality ranges:
1. acceptable, 2. problem, 3. vulnerable, or 4. loss.

Acceptable Loans	Loans of the highest quality ranging down to and including those having significant credit weaknesses.
Problem Loans	Loans having serious credit weaknesses requiring more than normal supervision, but believed to be collectible in full.
Vulnerable Loans	High risk loans still considered collectible but involving probability of loss in the event repayment from available sources does not materialize.
Loss Loans	Loans on which all or any portion is deemed uncollectible. These loans represent cases in which it appears that all or a portion of the borrower's total indebtedness, including any previous partial charge-off, will not be collected in full.

Important factors considered in classifying loans include:

The individual or entity (management ability, integrity and moral character, experience, etc.);

Financial position and progress;

Repayment capacity;

Loan purpose and basis of approval;

Collateral offered or available as security.

Additionally, a good deal of weight is given to the borrower's performance on other loans held by the Farm Credit System and other lenders.

During 1982, PCA loans classified as "acceptable" dropped by 7.4 percent to 77.2 percent of loans outstanding. The combination of "vulnerable" and "loss" PCA loans totaled 2.7 percent, above the 1.0 percent level of 1978, and still above the most recent (1975) peak of 2.5 percent.

System Loan Losses
Loan losses represent a final result of borrower financial difficulty that could not be overcome through loan servicing. They reflect loss to the System and do not cover additional substantial losses to the unsuccessful borrowers. As of December 31, 1982, the amount of loan losses increased compared to 1981; however, losses still remained at a very small percentage of loans outstanding.

For the year ending December 31, 1982, the banks for cooperatives' loan losses totaled $10.6 million. This represents .127 percent of the total BC loans outstanding. During 1980, BC loan losses represented a net gain of .008 percent of total loans outstanding as BCs received $858,000 from the sale of acquired property. The following year, BC losses amounted to $12.2 million. This represented .13 percent of the total BC loans outstanding for 1981. Because of the nature of BC lending operations, year-to-year comparisons of BC loan losses do not provide a reliable indication of either credit practices or of the general economic conditions of cooperatives.

In combination, the Federal intermediate credit

Net Loan Losses for Year Ending December 31

$ Thousands

	1980		1981		1982	
	Amount of Net Losses (Gains)	% of Loans Outstanding	Amount of Net Losses	% of Loans Outstanding	Amount of Net Losses	% of Loans Outstanding
BCs	$ (858)	(.008)	$ 12,203	.130	$ 10,579	.127
FICBs/PCAs	22,426	.110	44,198	.200	160,435	.750
FLBs/FLBAs	$ [illegible]	.0002	$ 781	.002	$ 1,543	.003

banks and production credit associations realized approximately $160.4 million on loss loans (.75 percent of their loans outstanding) during the year ending December 31, 1982. This was a substantial increase from the previous year's $44.2 million.

The Federal land bank/Federal land bank association write-offs of about $1.5 million is above last year's write-offs in absolute terms, but constituted only .003 percent of total loans outstanding.

Credit Monitoring
In 1982, prospects for a third consecutive year of depressed farm prices, low farm income and historically high interest rates heightened concern for the repayment capabilities of farm borrowers. In early 1982, the Farm Credit Administration began a quarterly credit monitoring procedure. Information is gathered on aspects of financial stress in agriculture, and specific data are obtained on repayment prospects of Farm Credit System borrowers. In an increasing degree of severity, the different measures used to indicate financial stress include repayment rates, amounts of refinancing, delinquency rates, and loans in the process of liquidation.

Through the first 9 months of 1982, the FLB repayment rate improved slightly over the same period in 1981, but remained significantly below the 1978–1980 average. Overall, FLB repayments were 71 percent of the 1978–1980 average rate.

The PCA collection rate over the 10-month period dropped 9 percentage points—collections ran at 84.3 percent of the 1978–1980 average for the first 10 months of 1982, compared to 93.3 percent for the same period a year earlier.

BC repayment rates were slightly lower than the 1981 average, but still remain high. For the 10-month period, the BC repayment rate was 103 percent of the 1978–1980 average.

We estimate that, on the average, 3 to 3½ percent of current System borrowers may not qualify for credit in 1983. The reason most frequently cited by lenders expecting to discontinue borrowers was economic conditions beyond the control of operators, although poor management was a factor in some cases.

Although the delinquency rate on Farm Credit System loans improved seasonally as 1982 progressed, the improvement was not an indication that financial stress was subsiding. Rates were above year-earlier figures. As an example, the FLB delinquency rate declined from 3.3 percent of outstanding loans at the end of the first quarter to 2.3 percent at the close of the third quarter. However, the actual number of delinquent loans on September 30, 1982, increased by 3,895 to 15,396, compared to a year earlier. The PCA delinquency rate was 2.7 percent on September 30, 1982 (no 1981 data are available for comparison). The PCA system had 10,244 of 378,873 loans delinquent on September 30, 1982.

The most severe result of financial stress is the amount of loans that are in the process of liquidation. As a percent of outstanding loans, both the FLBs and the FICBs reported a very low level of liquidations. For FLBs, the amount of loans being liquidated rose from 0.17 to 0.24 percent between September 30, 1981, and September 30, 1982. Over the same period for the 11 reporting FICBs, the rate rose from 0.58 to 1.51 percent. Although the rates increased substantially, the absolute amounts of $268 million in the FLB system and $329 million among the FICBs are minimal relative to total loans outstanding.

Forbearance and Foreclosure
Continued financial stress in the agricultural sector has forced the Farm Credit System to make some difficult decisions. These decisions are between continued forbearance and initiating actions that may lead ultimately to foreclosure. It is fortunate that the management ability and financial condition of the vast majority of the System's borrowers are such that these decisions must be made in only a very small number of cases, especially when compared to the total number of borrowers.

Foreclosure should be a last resort for any commercial lender, but particularly for a cooperative lender that is owned by its member-borrowers. Forbearance means considering, on a case-by-case basis, whether to renew, reschedule, defer payment, reamortize or otherwise continue credit for borrowers who have reasonable prospects for financial recovery.

Our System's policy is to continue working with distressed borrowers as long as they have any reasonable chance at all of recovery. It must be recognized, however, that there are situations where no reasonable prospect for recovery exists, where continuation of credit will simply increase losses to the farmer and to the lending institutions. Where there is no reasonable prospect of profitable operations using borrowed funds, all are best served if the borrower liquidates the operation, pays off his loan and withdraws his remaining equity.

The causes of financial stress in agriculture should not be confused with its symptoms. The cause of today's financial stress is the imbalance of supply and demand that forces farm prices close to or below production costs. The price-cost squeeze cuts the profits of some farmers and forces others to suffer losses depending upon their circumstances. The prospect of a fourth consecutive year of low prices in the face of stable, if not rising, costs suggests that further setbacks will occur. These setbacks will involve some liquidations of farming operations.

That the Farm Credit System adheres to a forbearance policy is reflected in the fact that renewals and refinancings have increased as a percentage of loan activity. In the first 9 months of 1982, PCA renewals accounted for an average of 32.8 percent of the monthly volume of loans made, compared to 29.3 percent in the first 9 months of 1981. FLB refinancing of non-real estate debt has claimed a larger share, rising to 16.7 percent of loans made during the first 9 months of 1982, compared to 13.3 percent in the first 9 months of 1981. FLBs have also shifted a greater share of their farm loan funds toward refinancing their own loans. FLB refinancing of FLB debt accounted for 21.6 percent of farm loan funds disbursed during the first 9 months of 1982 compared to 19.2 percent of a year earlier.

Forbearance is appropriate when the profitability of farm operations is temporarily low or negative. There are circumstances, however, where continuation of certain operations is not in the best financial interest of the farm borrower or his lender. In most cases, farmers recognize this and make adjustments in their operations including, in some cases, liquidation of assets to reduce indebtedness to a more manageable level. In a few cases, foreclosure action is initiated. Fortunately, most Farm Credit System foreclosure actions do not go to their ultimate end—forced sale of collateral by the courts. In calendar year 1982, FLBs, with 667,000 loans outstanding, took actions resulting in 385 foreclosure auctions nationwide. PCAs, with 378,000 members with loans outstanding, took actions that resulted in 870 farm foreclosure auctions nationwide during 1982.

The System's forbearance policy ultimately means that it shares part of the risk of farm operations. The extent to which PCAs share the financial risk of their borrowers shows up in losses. Nationwide, PCAs realized more net losses on loans in the last 3 years than they did in total, from their inception in 1933 through December 31, 1979. Fortunately, the Farm Credit System had made provisions for potential losses and has absorbed them without disruption of lending operations or impairment of the System's ability to meet its obligations to investors.

While perhaps attractive in theory to some, in reality the concept of a blanket moratorium on farm debts has potential for doing great and unintended harm. Inevitably, the effect would be to transfer the risks and threaten the supply of credit to the borrower. Especially for cooperative lending institutions like the Farm Credit System—which obtain their loan funds by selling securities to investors—even a limited moratorium applied to private lenders could create very serious as well as unique problems.

There are many reasons why the moratorium approach will not solve the current farm income crisis. In terms of impact upon the Farm Credit System, such a policy would unwisely:

1. Erode the confidence of bond market investors, as reflected both in price and availability of funds;
2. Drive other private lenders—including commercial banks and insurance companies—out of agriculture;
3. Impose even greater burdens on Government programs such as FmHA, the lender of last resort;
4. Increase Farm Credit System servicing expenses in order to protect against further risk exposure and against erosion of the farmers' equity in their own cooperative institutions; and
5. Increase the immediate costs to the System from having to carry non-income producing assets—in effect, forcing the System's sound owner/borrowers into a position of subsidizing and taking the loss for those in default.

The net result of all of these factors would be higher interest rates to farm borrowers and no mechanism for providing operating funds to those affected by the moratorium.

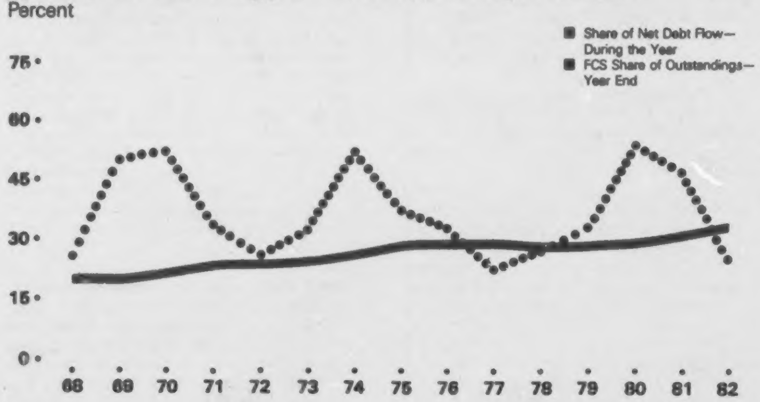
Farm Credit System Share of Farm Debt

The Farm Credit System share of farm debt outstanding on January 1, 1983, is estimated to have reached $68.9 billion, 32 percent of the total estimated farm debt of $215 billion, and about the same as its share a year earlier, 32.5 percent.

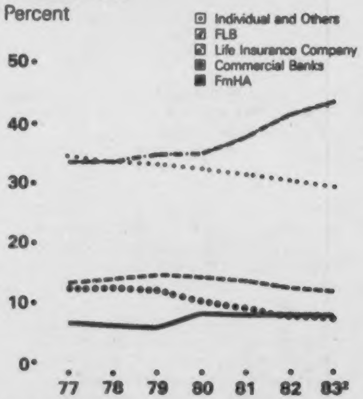
Federal Land Banks
Over the past decade, Federal land banks have emerged as the major provider of farm real estate-secured lending, holding just over 41 percent of the real estate debt in 1982. This increase in the share held by the FLBs occurred at the expense of the shares of life insurance companies and commercial banks. The life insurance companies lost much of their share in the early part of the decade as demands on them for cheap policy loans soared in the face of climbing interest rates and other investment and loan opportunities offered higher rates of return. The commercial banks reduced their mortgage holdings in the latter part of the decade, as interest rates skyrocketed and lendable funds dropped, causing liquidity pressures on their portfolios. The share of real estate debt held by institutions in general has gained significantly, while the share held by individuals has dropped correspondingly.

Production Credit Associations/ Federal Intermediate Credit Banks
Total farm nonreal estate lending is expected to reach $105 billion by year-end 1982—an increase of 9 percent over year-end 1981 lending. The period since 1975 has witnessed the emergence of significant Government lending. CCC lending has increased ten-fold as crop prices have dropped. The lending by FmHA, the traditional "lender of last resort," has grown by nearly six times, as farm incomes declined and some farming operations were no longer able to support the high cost of borrowing from other sources. As a result, both PCAs

Farm Credit System Share of Net Farm Debt Flow During Year and Debt Outstanding at Year End



Farm Real Estate Debt Outstanding-Lender Shares[1]



[1] As of January 1.
[2] Preliminary.

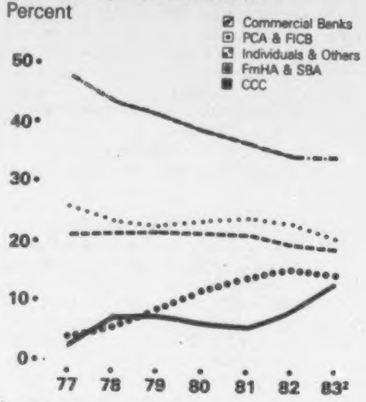
and commercial banks have lost market share. The loss of market share by commercial banks has been substantial since 1976—their share at year-end is about 34 percent of the total. Although less dramatic, PCAs have also lost market share—holding about 19 percent at year-end, down from 22 percent at the beginning of 1982. The share of nonreal estate debt held by "individuals and others" dropped slightly. As the cash flow of farmers has deteriorated, merchants and dealers are offering attractive credit terms to spur sales. The FICB loans to other financing institutions comprise about 1 percent of farm nonreal estate debt.

Banks for Cooperatives

Cooperatives rely on banks for cooperatives for the major portion of their borrowed capital. Over 60 percent of the funds borrowed by cooperatives comes from this source. On January 1, 1982, cooperative debt outstanding owed to BCs amounted to $9.1 billion. On September 30, 1982, this debt outstanding totaled $8.1 billion.

BCs have been relatively more important as a source of long-term debt to cooperatives than as a source of short-term capital. In 1981, BCs provided 50 percent of the short-term debt borrowed by the largest 100 cooperatives, but were relatively more important as a source of long-term debt providing 63 percent of the total.

Farm Nonreal Estate Debt Outstanding—Lender Shares[1]



[1] As of January 1.
[2] Preliminary.

Special Lending Activities

Young, Beginning and Small Farmers
FCA has promulgated regulations to implement the young, beginning and small farmer provisions of the 1980 amendments. In order to assist the banks and associations in devising their respective policies, a task force of Farm Credit System officers developed a model policy and guidelines. For these policies to be successful, FCA believes that they must be developed on the local level and tailored to local agricultural and economic conditions and to the capacity of individual associations. FCA will continue to work with System institutions in fashioning policies responsive to local needs. FCA is also working in conjunction with the Farmers Home Administration to improve coordination between FmHA and System lending programs, with special emphasis on how the two institutions can better assist young and beginning borrowers.

The agency has put into place procedures and specifications to meet the special reporting requirements for young, beginning and small farmers. These efforts were undertaken with the cooperation of the FLBs and the FICBs. Information from these reports will be provided to Congress later this year.

Other Financing Institutions
The Federal intermediate credit banks are authorized to provide loan funds to production credit associations and to discount or purchase agricultural paper from other financing institutions (OFIs). OFIs are commercial banks and other institutional lenders that qualify for access to the discount facility. They may do so if they are significantly involved in agricultural lending and if they can meet other statutory and regulatory requirements for eligibility under the Farm Credit Act of 1971, as amended.

Liberalized eligibility requirements provided under the Farm Credit Act Amendments of 1980 became effective on December 26, 1981. Since that time, the Farm Credit Administration has developed and distributed regulations for implementing the amendments to the 12 Federal intermediate credit banks. The FICBs have developed policies and procedures to provide this expanded service to eligible users. It is anticipated that these regulations will make it possible for more rural community banks to access the FICB discount facilities.

During 1982, Farm Credit Administration officials attended national meetings of the American Bankers Association (ABA) and the Independent Bankers Association, as well as other groups, to fully explain the new regulations. In addition, FCA provided input to the ABA to assist in the development of a booklet on how to organize and implement agricultural credit corporations. The Agency approved legal documents required for implementing the regulations for the amendments (general financing agreement, loan applications, etc.). Bank officials of the Farm Credit System have also met with state and local banking groups to explain more fully the regulations and liberalized requirements of the amendments. These efforts, so far, have not produced significant results in OFI activity. Commercial banks have not used this new authority to the extent anticipated during consideration of the 1980 amendments because of improved liquidity of commercial banks caused by generally declining economic conditions of the Nation as a whole and because of relatively weak farm loan demand.

As of September 30, 1982*, there were 207 OFIs discounting with the Federal intermediate credit bank system, representing 323 commercial banks. As of October 31, 1982, there was $942.0 million in OFI loans outstanding, a decrease of 3.7 percent from the previous year.

Special Lending Programs
Outstanding at October 31, 1981 & 1982

$Millions

	1981	1982
OFI Loans	**$ 977.9**	**$ 942.0**
PCA Participation Loans	**208.3**	**156.1**
Aquatic Loans	**467.7**	**445.4**
Federal Land Bank		0.2
Production Credit Association	467.7	445.2
Rural Home Loans	**2,705.2**	**3,101.8**
Federal Land Bank	2,670.6	3,049.3
Production Credit Association	34.6	52.5
Rural Electric Cooperatives	**1,252.5**	**1,232.6**
International Loans		**107.7**

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*Number of OFIs discounting with FICBs not available as of October, 31, 1982.

Commercial Lender Participations
The PCA participation program is a means by which commercial banks obtain loan funds from the Farm Credit System without establishing a discount relationship with an FICB. The program is similar to the typical overline arrangement between a country bank and a city correspondent bank. A PCA provides funds to a commercial bank for eligible overline loans (loans that exceed the bank's legal lending limit) or loans in which the bank may wish the PCA to participate. The requirements of this program were also liberalized by the 1980 amendments to the Farm Credit Act of 1971 by allowing stock requirements for loans to be issued in the name of the commercial bank rather than in the name of the borrower.

Total participations outstanding on October 31, 1982, to 301 banks were $156.1 million, a decrease of 25.1 percent in loan volume. The Nation's economic condition, as well as the increased liquidity of commercial banks, is reflected in this decrease in volume.

The Farm Credit Administration reviews these loans annually for the quality of credit and the adequacy of the loan participation agreement as part of its regular credit reviews.

Bank for Cooperatives
International Agricultural Trade Loans
As of October 31, 1982, the BCs had extended $107.7 million in international credit to support the export sales of U.S. cooperatives. A large portion of these sales carried the guarantee of the U.S. Government under the export credit programs available to private lenders through the U.S. Department of Agriculture.

Thanks to a new insurance agreement involving the Central Bank for Cooperatives (CBC), the Export-Imp[illegible]ank, and the Foreign Credit Insurance Association, BCs can now provide insured loans to help agricultural cooperatives export their products. Under this agreement, a majority of CBC's international transactions will receive better protection against political and commercial defaults.

This past year was one of no-growth in agricultural exports, making it very difficult for the BCs to break into the competitive international marketplace. The Farm Credit Administration will continue to encourage the banks to proceed with international lending in a prudent manner.

Aquatic Lending
The 1971 Farm Credit Act authorizes production credit associations to make loans to producers or harvesters of aquatic products. Aquatic loan volume grew moderately through 1977 to $80 million, then expanded rapidly through 1980 to $415 million, and peaked at $470 million in late 1981. As of October 31, 1982, about $445.2 million was loaned to about 2,950 borrowers by 54 PCAs in seven Farm Credit districts on the Atlantic, Pacific, and Gulf Coasts

The Act also authorizes Federal land banks to make aquatic loans for facilities and banks for cooperatives to lend to cooperatives engaged in producing or harvesting aquatic products or for furnish[illegible]atic business services. FLB and BC aquatic loans outstanding are insignificant (less than $1 million as of October 31, 1982). The total amount of aquatic loans outstanding for System institutions in the year ending October 31, 1982, was $445.4 million.

Experience with aquatic loans was generally favorable through 1980, but difficulties began surfacing in 1981, and continued through 1982. The difficulties stemmed from extensive expansion and debt, com[illegible]d with rapid escalation in interest and fuel costs, declining product prices to fishermen, declining or cyclical resources, and restrictive fishing regulations. The Farm Credit System is reviewing the aquatic loan program to identify the impact these difficulties have on the service to borrowers and on the quality of the loan portfolio.

Marketing and Processing
The Farm Credit Act Amendments of 1980 provides authority for the FLBs and PCAs to finance the basic processing and marketing function of farmers, ranchers, and producers or harvesters of aquatic products. The applicant's operation must supply at least 20 percent of the total input involved in the processing or marketing activity for which financing is extended. A larger percentage may be required by the supervising bank's board of directors. The regulations provide that the banks shall develop policies for implementing this authority subject to approval by the Farm Credit Administration. As of December 31, 1982, ten of the districts had submitted policies and nine of them have been approved by FCA.

Because of adverse economic conditions for agriculture, there have been no loans made under this new authority during 1982.

Rural Home Loans
The Farm Credit Act of 1971 provides authority for Federal land banks and production credit associations to make loans for rural homes under certain conditions, including but not limited to the following: The homes must be in rural areas; they must be moderately priced; and they must be owner-occupied with no more than one rural home loan being extended to a borrower at a time.

The Farm Credit Administration, as part of its supervisory responsibility, [illegible]ers and analyzes data developed by both governmental sources as well as realtor groups in order to provide, on an annual basis, nationwide moderate price levels. The Agency also reviews areas that have rural housing to determine that the homes are in rural areas, and it reviews rural home loan borrower files in selected associations each year to determine loan quality and eligibility.

As of October 31, 1982, FLBs and PCAs had $3.1 billion in rural home loans outstanding, an increase of 14.8 percent over 1981. This represents 4.3 percent of total FLB and PCA loans outstanding.

Rural Electric Cooperative Loans
In the year ending October 31, 1982, the BCs had approximately $1.23 billion in loans outstanding to rural electric cooperatives (RECs), down 2 percent from a year ago. Rural electric lending is primarily concentrated in the Louisville, New Orleans, and St. Paul Farm Credit Districts, although six other districts do have loans outstanding to RECs. The 89 loans outstanding to RECs represent 14 percent of total BC loans outstanding.

Lending to RECs had increased substantially over the 4 years prior to this past year's slight decline. Most of the BC lending has been to generating and transmission cooperatives, although the BCs continue to broaden the scope of lending to RECs as loan commitments to an increasing number of distribution cooperatives are being made.

In fulfilling FCA's supervisory responsibility, Agency staff reviews REC loans in the examination process and addresses any difficulties regarding compliance with law and credit standards through its supervisory activities with the banks.

Financially Related Services
Credit life insurance has been offered to Farm Credit System borrowers for 30 years. Crop hail insurance and electronic farm recordkeeping programs have served members for 15 years. Other financially related services offered include credit disability insurance, multiple peril crop insurance, equipment rental, estate planning assistance, farm business consulting, income tax preparation, and appraisal services. The banks for cooperatives provide financial management and planning assistance to cooperatives.

The examination and supervision of these programs are accomplished through on-site reviews at the banks and associations. These reviews ensure that the Farm Credit System regulations, guidelines, and other conditions under which the programs were approved are being followed.

Farm Credit Administration

Supervision of the Farm Credit System
The Farm Credit Administration (FCA) is charged by Congress with supervision of the institutions of the Farm Credit System. In carrying out this charge, the Agency has a responsibility to four specific groups.

First, Congress has determined that a strong agricultural economy is in the public's long-term interest, and that a dependable credit system is essential to this national objective. Second, the Agency has a responsibility to ensure that investors in System securities receive adequate and accurate information about the financial condition of the System, and that the System maintains the financial strength to repay maturing debt. Third, existing and potential borrowers must have assurance that System institutions are staffed with adequate numbers of well-trained individuals to meet the borrowers' needs for credit and related services. Finally, the institutions of the System are bound together by joint and several liabilities for System securities, various capital preservation and loss sharing agreements, and by reputation. FCA also supervises the individual Farm Credit banks on behalf of all others to ensure that each institution is financially sound and operates in a manner that brings no discredit to the System.

FCA's supervisory responsibilities are carried out through an ongoing program of examination and supervision. Each Farm Credit bank undergoes an annual examination by FCA consisting of:

1. An audit of the bank's financial records and accounts, in accordance with generally accepted auditing standards;
2. Such tests as deemed necessary to evaluate the quality of bank boards' and managements' performance; and
3. Evaluation of major program areas for compliance with the law, FCA regulations, and good business practice.

The examination also includes the classification of System loans into four quality ranges: 1.acceptable, 2.problem, 3.vulnerable, and 4.loss.

The Agency's supervision places major emphasis on maintaining appropriate accountability for performance at each level of the System. With this concept of supervision, accountability for performance flows from association staff to association management, from association management to association boards, from association boards to bank staff, from bank staff to bank management, from bank management to bank boards, from bank boards to FCA, and finally, from FCA to Congress. This approach is consistent with the mandate of the Farm Credit Act of 1971 to delegate authority to the lowest practical level consistent with each institution's demonstrated ability.

FCA's supervision concentrates heavily on the performance of the bank board in setting policy direction for the district and on the manner and extent to which the board holds management accountable for performance. The Agency's supervisory and examination staffs prepare annual written reports to the board and management of each bank. These reports contain the findings of the examination, the conclusions reached by the Agency as a result of the examination, and any recommendations for improving bank performance. The evaluations contained in these reports, together with the responses of the bank board and management, determine the level of supervision the bank will receive from FCA.

This past year has been the most difficult year since the Depression for farmers and ranchers and their lenders. Nearly all major segments of agriculture experienced significant reductions in income from agricultural production. The agricultural economy was also heavily impacted by conditions in the general economy worldwide. System activities and FCA supervision, therefore, have concentrated this past year on:

1. Servicing the existing loan portfolio to ensure that all tools available to assist borrowers in troubled times are being used;
2. Strengthening System programs for recruiting, training, and evaluating personnel; and
3. Implementing the 1980 amendments to the Farm Credit Act of 1971.

Farm Credit Administration Staff
The Farm Credit Administration's chief executive officer, the Governor, is appointed by the Federal Farm Credit Board. The Governor, together with his staff, is responsible for carrying out the Board's policies.

Donald E. Wilkinson
Governor

C. T. Fredrickson
Senior Deputy Governor

Kenneth J. Auberger
Deputy Governor and Chief of Staff

Larry W. Edwards
Deputy Governor
Office of Supervision

Eldon W. Stoehr
Deputy Governor and Chief Examiner
Office of Examination

Larry H. Bacon
Deputy Governor
Office of Administration

Frederick R. Medero
General Counsel

Kim C. Bowersox
Director
Congressional and Public Affairs

Federal Farm Credit Board
The Federal Farm Credit Board is the top policymaking body for the Farm Credit Administration and the cooperative Farm Credit System. The Board establishes regulations to implement the laws under which the System operates, and also recommends legislative actions needed to fulfill the System's role, established by Congress, of meeting the credit and related needs of borrowers.

Members of the Federal Farm Credit Board, as all other boards in the System, serve on a part-time basis. Twelve members of the Board, one from each Farm Credit district, are appointed by the President of the United States, with the advice and consent of the U.S. Senate. They serve 6-year terms and are not eligible for reappointment. A thirteenth member of the Board is appointed by and serves at the pleasure of the Secretary of Agriculture.

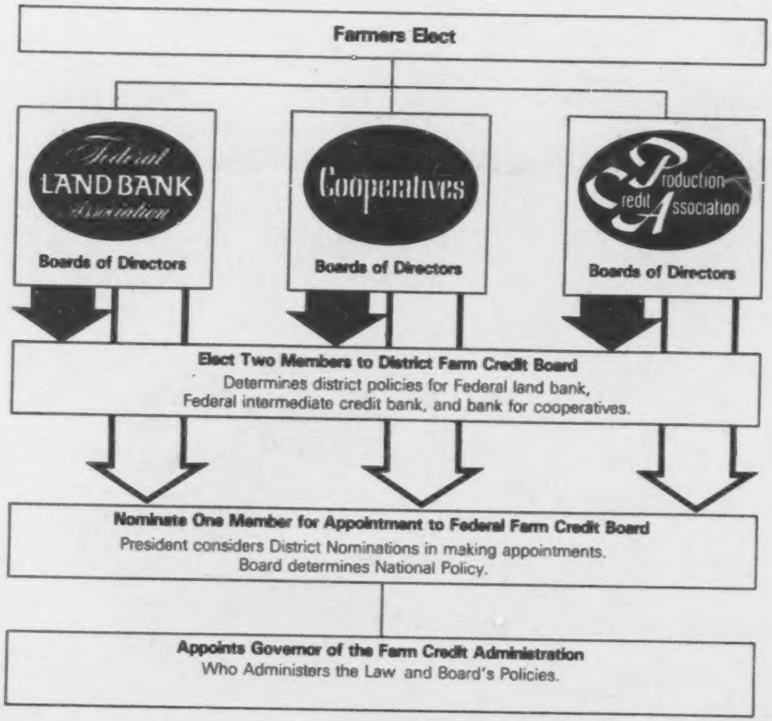
The law provides that in making his appointments to the Board, the President must consider the public interest, the welfare of farmers, a fair representation from the three banking groups of the System, and must give special consideration to persons who are experienced in cooperative agricultural credit. Through a series of polls, three candidates are nominated for each vacancy on the Federal Farm Credit Board—one each by the Federal land bank associations, production credit associations, and cooperatives holding stock in the district's bank for cooperatives.

The present members of the Federal Farm Credit Board are as follows:

Board Member	**District Represented**
Dwight L. Tripp Maine	**Springfield**
William D. Wampler Virginia	**Baltimore**
W. Proctor Scarboro North Carolina	**Columbia**
Leonard R. Fouts Indiana	**Louisville**
Owen Cooper Mississippi	**New Orleans**
John D. Naill, Jr. Arkansas	**St. Louis**
Jewell Haaland Minnesota	**St. Paul**
Ralph Raikes Nebraska	**Omaha**
Ralph Ball Kansas	**Wichita**
Tom H. Carothers Texas	**Texas**
Edgar C. Rutherford California	**Sacramento**
George W. Lacey Montana	**Spokane**
George Steele Pennsylvania	**Secretary's Appointee**

Farm Credit System
Organizational Structure

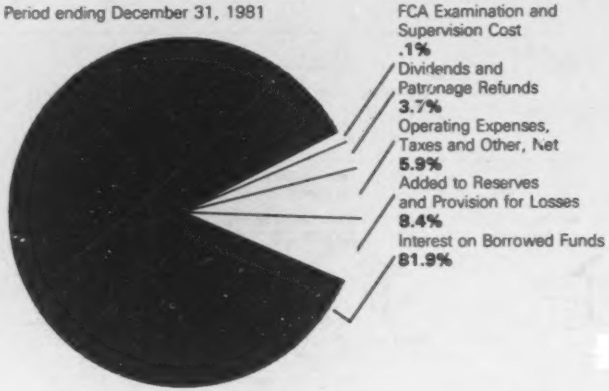
How Farmers Share in Control of the Cooperative Farm Credit System


Farmers Elect
Federal LAND BANK Association
Boards of Directors
Cooperatives
Boards of Directors
Production Credit Association
Boards of Directors
Elect Two Members to District Farm Credit Board
Determines district policies for Federal land bank,
Federal intermediate credit bank, and bank for cooperatives.
Nominate One Member for Appointment to Federal Farm Credit Board
President considers District Nominations in making appointments.
Board determines National Policy.
Appoints Governor of the Farm Credit Administration
Who Administers the Law and Board's Policies.

Farm Credit System Costs
This chart shows the costs that Farm Credit borrower/owners pay to operate their system and obtain the credit they need for their farm, ranch, and aquatic operations. The chart illustrates the self-supporting character of the System. The borrower/owners pay the borrowed funds and all expenses, including the Government examination and supervision provided by FCA.

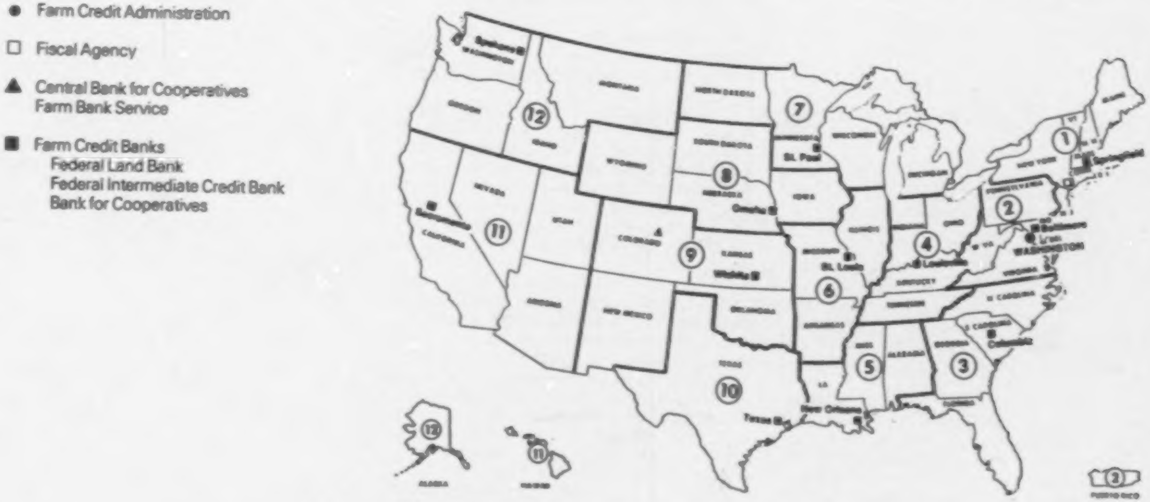
Farm Credit Administration expenses have increased yearly; however, in comparison to the System's loan activity, Farm Credit Administration expenses are small.

Period ending December 31, 1981



Farm Credit Administration Expenses

Year	FCA Expenses ($ Amount)	Percentage Increases in FCA Expenses	FCA Expenses as a Percent of Loans Outstanding	FCA Expenses as a Percent of Loans Made
1977	$ 8,239,000	+13.3	.020	.022
1978	8,828,000	+ 7.1	.019	.021
1979	10,551,000	+19.5	.019	.020
1980	11,288,000	+ 7.0	.017	.017
1981	12,796,000	+13.4	.017	.018
1982	14,[illegible],000	+16.2	.018	.022


● Farm Credit Administration
☐ Fiscal Agency
▲ Central Bank for Cooperatives
Farm Bank Service
■ Farm Credit Banks
Federal Land Bank
Federal Intermediate Credit Bank
Bank for Cooperatives
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9
10
11
12
Spokane
WASHINGTON
OREGON
IDAHO
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
WYOMING
NEBRASKA
Omaha
NEVADA
Sacramento
CALIFORNIA
UTAH
COLORADO
KANSAS
Wichita
ARIZONA
NEW MEXICO
OKLAHOMA
TEXAS
Texas Bk.
MINNESOTA
St. Paul
WISCONSIN
IOWA
MICHIGAN
ILLINOIS
MISSOURI
St. Louis
OHIO
Louisville
KENTUCKY
TENNESSEE
ARKANSAS
LA
New Orleans
MISS
ALABAMA
GEORGIA
FLORIDA
S CAROLINA
Columbia
N CAROLINA
VIRGINIA
W VA
WASHINGTON
Baltimore
PENNSYLVANIA
NEW YORK
Springfield
VT
MAINE
ALASKA
HAWAII
PUERTO RICO

Farm Credit Administration

Purpose Statement

The Farm Credit Administration is the independent Federal agency responsible for the regulation, supervision, and examination of the borrower-owned banks and associations that comprise the cooperative Farm Credit System. The administration also coordinates certain activities of these institutions in the best interest of their borrowers.

These activities are carried out under the direction of a 13-member Federal Farm Credit Board. Twelve of its members, one from each Farm Credit district, are appointed for 6-year terms by the President of the United States. These members are subject to confirmation by the U.S. Senate and can serve only one term. The 13th member is appointed by the Secretary of Agriculture and serves at the pleasure of the Secretary.

Typical activities of the Farm Credit Administration include assistance in financing and investments, credit analysis, development of appraisal standards and policies, preparation of reports and budgets, and preparation and distribution of information on agricultural credit and the services offered by the various institutions of the System.

The Farm Credit Administration also issues regulations governing the lending activities and operations of the institutions under its supervision.

Originally established as an independent agency by Executive Order No. 6084, effective May 27, 1933, the Farm Credit Administration was transferred to the Department of Agriculture on July 1, 1939. It remained in the Department of Agriculture until the Farm Credit Act of 1953 reestablished it as an independent agency under the direction of the Federal Farm Credit Board.

The administration and the institutions under its supervision now operate under authorities contained in the Farm Credit Act of 1971, PL 92-181, effective December 10, 1971, as amended by PL 96-592, effective December 24, 1980. The Act provides for the farmer-owned cooperative system to make credit available to farmers and ranchers, for rural residences, and to cooperatives and other borrowers for farm related businesses upon which farming operations are dependent, to provide for an adequate and flexible flow of money into rural areas, and to modernize and to consolidate existing farm credit law to meet current and rural credit needs.

On September 30, 1982, the Farm Credit Administration had 257 full-time permanent employees, 93 of whom were located in the field. These field employees are primarily bank and association examiners and supporting clerical staff.

All expenses of the activities and personnel of the Farm Credit Administration are paid by assessments collected from the banks of the Farm Credit System.

Administrative Expenses
$ Thousands

Approved by the Federal Farm Credit Board and funded by assessments against earnings of the 37 Farm Credit Banks

Budget estimate, 1984	$20,551
Budget estimate, 1983	18,186
Increase	2,365

The increase of $2,365 for 1984 over 1983 results from the following:

1. Net effect of within grades, promotions and changes in personnel benefits	$437
2. Increased travel costs	316
3. Increased cost of communications, utilities and rentals	1,252
4. Increase in printing and reproduction costs	10
5. Increased cost of supplies, equipment and other items	350
Total Increase	**$2,365**

Program
$ Thousands

	1982 actual	1983 revised estimate	1984 estimate	Change 1983 to 1984
Supervision and examination of Farm Credit banks and associations	$14,861	$18,186	$20,551	$2,365
Unobligated balance	1,624	—	—	—
Budget total	**$16,485**	**$18,186**	**$20,551**	**$2,365**

Assessment for Operating Expenses
Assessments based upon estimated expenditures are collected from banks in the Farm Credit System and are available for administrative expenses. Obligations are incurred within fiscal-year budgets approved by the Federal Farm Credit Board as provided in Public Law 92-181.

Short-Term Investment Fund
This fund is available to the Governor of the Farm Credit Administration as a revolving fund for investment in the Class A capital stock of the Federal intermediate credit banks and Class A and Class C stock of the production credit associations.

On December 31, 1968, the Government's investment in the Class A stock of the Federal intermediate credit banks was retired in full, thus making them privately owned. Of the $107,496,625 paid the Treasury for the capital stock, $43,839,120 was credited to proprietary receipts of the general fund and $63,657,505 was returned to the revolving fund. The last of the Government's investment in the production credit associations was also repaid. There is now $111,707,505 available in this fund but no investment of Government capital in the Federal intermediate credit banks and production credit associations is antitipcated in the near future.

Banks for Cooperatives Investment Fund
This fund is available to the Governor of the Farm Credit Administration for investment in Class A capital stock of the banks for cooperatives.

The last of the Government's investment in the banks for cooperatives was retired on December 31, 1968, which made them privately owned. The amount in the fund available to the Governor is $148,091,211. No investment of the Government capital in any of the banks is anticipated in the near future.

Passenger Motor Vehicle
The Farm Credit Administration hires one automobile. This automobile is used primarily by the Governor's office for transportation to and from official meetings and conferences in Washington, D.C., with other Government officials, and with congressional bodies.

The 1984 budget estimates do not include funding for the purchase of any automobiles.

Position Justifications
The Farm Credit Administration plans no new positions for Fiscal Year 1984.

The Farm Credit System

The cooperative Farm Credit System operates under authorities contained in the Farm Credit Act of 1971. The banks and associations which comprise the System are suprevised and examined by the Farm Credit Administration, an independent agency in the Executive Branch of the Government.

The System provides credit and closely related services to farmers, ranchers, producers and harvesters of aquatic products, agricultural and aquatic cooperatives, rural homeowners, and certain businesses providing farmers with services essential to their on-farm operating needs.

To fulfill these purposes, the country is divided into 12 Farm Credit Districts. At the same location in each district there is a Federal land bank, a Federal intermediate credit bank, and a bank for cooperatives. There is also a Central Bank for Cooperatives in Denver, Colorado.

Federal Land Banks/ Federal Land Bank Associations

The Federal land banks make loans with terms of from 5 to 40 years through 476 Federal land bank associations. These loans are secured by first liens on farm and rural real estate.

Loans are made for a variety of purposes including the purchase of farm property, rural homes, real estate needed for farm related business, purchase of equipment, machinery, livestock, refinancing existing mortgages and paying other debts and financing other needs of the borrower.

Total credit extended to one borrower may at no time exceed 85 percent of the appraised value of the property taken as security; 97 percent if the loan is guaranteed by a Federal, state, or oth gency. Each Federal land bank is limited in rural home lending to 15 percent of its total loan volume outstanding.

Federal Intermediate Credit Banks/ Production Credit Associations

The Federal intermediate credit banks provide loan funds to 421 production credit associations and discount notes of eligible borrowers given to certain other institutions financing agricultural producers. They also participate with one another and with production credit associations in making loans.

Production credit associations make loans with terms up to 7 or 10 years, depending on the Farm Credit district, to farmers, ranchers, rural homeowners, and certain farm related businesses. Loans to producers and harvesters of aquatic products, however, may be made for up to 15 years.

Loans are made for a variety of purposes related to the production of agricultural products, the production and harvesting of aquatic products, the purchase, repair or maintenance of rural homes and other requirements of borrowers. At no time, however, may the total credit extended for other than agricultural purposes exceed the value of assets devoted to agricultural production or the production and harvesting of aquatic products.

The total amount of credit extended to a rural homeowner may not exceed 85 percent of the appraised value of the property. Each production credit association is basically limited in rural home lending to 15 percent of its total loan volume outstanding.

Banks for Cooperatives

The twelve district banks for cooperatives serve marketing, supply ar business service cooperatives whose headquarters are within their respective territories. To qualify for a loan at least 80 percent of the voting control of most supply and marketing cooperatives must be in the hands of farmers, ranchers, or producers or harvesters of aquatic products. Public utility, rural electric and telephone cooperatives, as well as certain farm supply cooperatives must have 60 percent farmer-members to be eligible for BC financing. To be eligible, a cooperative must also do at least 50 percent of its business with or for its members as patrons. Excepted from this requirement is business done with the United States Government and services or supplies furnished by the cooperative as a public utility. The banks also serve associations or federations of such cooperatives.

The Central Bank for Cooperatives participates with the district banks on loans which exceed their individual lending capacity.

Farm Credit Securities and Interest Rates

The Farm Credit banks obtain funds through the sale of securities by their fiscal agent in New York. To assure the acquisition of funds in an efficient and orderly manner the Farm Credit banks in January 1977 introduced the Federal Farm Credit Consolidated Systemwide Bond. On January 1, 1979, the Consolidated Systemwide Bond became the sole bond issue of the Farm Credit banks. Bonds issued separately by the Federal land banks, Federal intermediate credit banks, and banks for cooperatives prior to this date will remain available on the secondary market until their maturity.

During calendar year 1982 Farm Credit banks raised $47.4 billion in the financial markets through the sale of bonds. (Federal land banks–$17.6 billion, Federal intermediate credit banks $21.7 billion, and banks ooperatives $8.1

billion.) Of this total, $1.2 billion represented new money to accommodate increasing loan volume, and $46.5 billion was used to finance maturing obligations. (New money—Federal land banks $3.7 billion, Federal intermediate credit banks reduced outstanding by $1.2 billion, and banks for cooperatives reduced outstandings by $0.9 billion.) Funds raised in 1982 were 18 percent less than the $55.0 billion raised in 1981. Money raised in 1981 consisted of $8.4 billion in new money and $46.6 billion to finance maturing issues. The average interest cost for bonds during calendar year 1982 was 12.55 percent, as compared with 15.26 percent for 1981.

Federal Farm Credit Banks Consolidated Systemwide Notes are the secured joint and several obligations of the 37 Farm Credit banks. These notes, which are sold on a discount basis with a maturity of 5–270 days are used to complement short-term borrowings, provide a source of interim funds between bond sales, and supply the banks with additional flexibility in securing funds during periods of unexpected demand.

Discount notes sold during 1982 calendar year totaled $26.8 billion, compared to $40.3 billion issued in 1981. The average interest cost of discount notes in 1982 was 11.47 percent as compared with 15.91 percent in 1981. The average maturity for these notes in 1982 was 27.0 days compared with 28.5 days in 1981. The average daily amount outstanding in 1982 was approximately $2.0 billion.

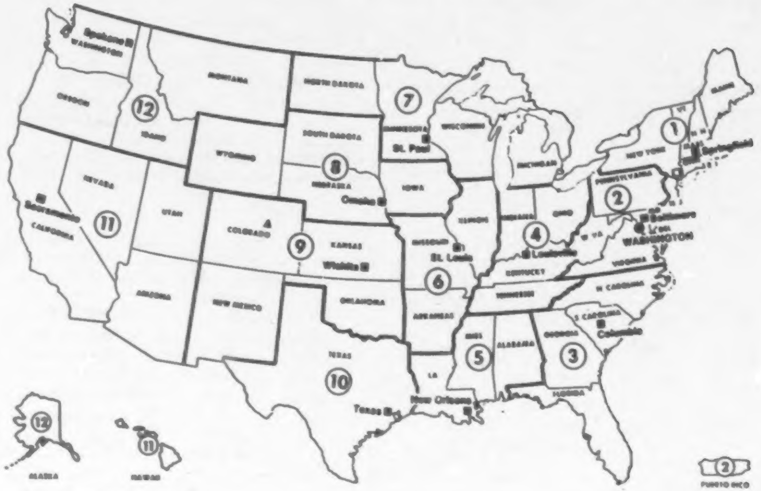
Monthly district average interest rates charged on farm loans by Federal land banks during 1982 fluctuated between a low of 12.13 percent in January to a high of 12.35 percent during the period June–October. District average quarterly loan rates at production credit associations for agricultural loans declined during the year from a high of 15.25 percent in January to 13.75 percent on October 1, 1982.

District average interest rates in 1982 on seasonal loans at banks for cooperatives fluctuated between a high of 14.92 percent in March and a low of 11.0 percent in December. (See Table 3).

Farm Credit Act Amendments of 1980
The Farm Credit Act Amendments of 1980 modified the Farm Credit Act of 1971 to update and improve the operation of the Farm Credit System. The institutions of the system were provided with additional and revised authorities to enable them to better serve the credit and related needs of their borrower-members. These authorities were implemented during 1981. Increases in loan volume resulting from the changed authorities were modest as institutions exhibited caution in their expanded role.

Cooperative Farm Credit System

- ● Farm Credit Administration
- ☐ Fiscal Agency
- ▲ Central Bank for Cooperatives
  Farm Bank Service
- ■ Farm Credit Banks
  - Federal Land Bank
  - Federal Intermediate Credit Bank
  - Bank for Cooperatives


Spokane
WASHINGTON
OREGON
IDAHO
MONTANA
NORTH DAKOTA
SOUTH DAKOTA
NEBRASKA
WYOMING
Sacramento
CALIFORNIA
NEVADA
UTAH
COLORADO
ARIZONA
NEW MEXICO
KANSAS
Wichita
Omaha
OKLAHOMA
TEXAS
Texas
St. Paul
IOWA
MISSOURI
St. Louis
ARKANSAS
LA
New Orleans
WISCONSIN
ILLINOIS
MICHIGAN
INDIANA
OHIO
Louisville
KENTUCKY
TENNESSEE
MISS
ALABAMA
GEORGIA
FLORIDA
S CAROLINA
Columbia
N CAROLINA
VIRGINIA
W VA
Baltimore
WASHINGTON
PENNSYLVANIA
NEW YORK
VT
N H
MASS
Springfield
MAINE
ALASKA
HAWAII
PUERTO RICO
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11
12

Table 1
$Millions

Loans Made to Agriculture by the Farm Credit Banks and Associations[1]

Lending banks and associations	1965	1970	1975	1980	1981	1982
			Calendar year			
Federal land banks	$ 887	$ 1,017	$ 4,411	$ 9,629	$11,400	$ 7,129
Production credit associations	4,133	8,277	16,070	32,289	34,658	32,792
Banks for cooperatives	1,316	2,476	8,704	24,600	24,799	23,472
Federal intermediate credit banks[2]	296	621	1,166	1,768	1,856	1,769
Total Loans	**$6,634**	**$12,391**	**$30,351**	**$68,286**	**$72,713**	**$63,491**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts made to other financial institutions. Excludes advance loans to PCAs.
Source: Farm Credit Administration

Table 2
$Millions

Loans Outstanding to Agriculture, Held by the Farm Credit Banks and Associations, January 1, 1965–1982[1]

Lending banks and associations	1965	1970	1975	1980	1981	1982
			Calendar year			
Federal land banks	$4,280	$ 7,186	$16,564	$36,032	$43,658	$47,282
Production credit associations	2,598	5,334	10,846	19,636	21,042	20,101
Banks for cooperatives	958	1,732	3,979	9,506	9,124	8,423
Federal intermediate credit banks[2]	132	225	352	811	914	872
Total Loans	**$7,968**	**$14,477**	**$31,741**	**$65,985**	**$74,738**	**$76,678**

[1] Excluded are nonfarm rural home and farm related business loans.
[2] Loans and discounts outstanding to other financial institutions. Excludes credit outstanding to PCAs.
Source: Farm Credit Administration

Table 3

Interest Rates of Farm Credit Banks and Associations January 1, 1983

Farm Credit District	Federal Land Banks[1]		Federal Intermediate Credit Banks	Production Credit Association most Prevalent Rates[2] [5]	Banks for Cooperatives	
	Farm	Rural Home			Seasonal	Term
Springfield	12.00	13.00–14.50[3]	11.50	12.01–12.50	10.00–11.00[3]	12.75–13.75[3]
Baltimore	12.50	12.50	11.28	13.01–13.50	9.75	12.50
Columbia	11.75	11.75	11.50	12.51–13.00	10.75	12.25
Louisville	12.50	13.00	11.05	13.01–14.00	11.00	12.40
New Orleans	12.00	12.25	12.70	14.01–14.50	11.75	11.75
St. Louis	12.00	12.00	11.13	13.01–13.50	10.75	12.50
St. Paul	12.50	13.00	11.30	13.51–14.00	11.00	12.25
Omaha	13.00	13.00	11.70	13.51–14.00	10.85–12.35[3]	11.65–13.15[3]
Wichita	12.75	13.00	11.80	13.51–14.00	10.80	10.80
Texas	11.50	12.00	11.78	14.01–15.00	11.50	11.50
Sacramento	11.50	12.00	11.37	13.51–14.00	10.25	12.25
Spokane	12.00	12.00	11.90	13.01–14.00	11.00	12.00
Central Bank	—	—	—	—	[4]	[4]

[1] Current billing rate.

[2] Interest rate plus loan service fees on agricultural loans.

[3] As assigned under the approved differential interest rate program.

[4] Follows district rate on participations.

[5] As of October 1, 1982.

Table 4
$Thousands

Net Worth of Farm Credit System as of June 30, 1982

Banks and associations	Paid-in capital	Earned net worth Reserved	Earned net worth Unreserved	Total net worth
Federal land banks	$2,709,570	$1,285,966	$1,249,863	$ 5,245,399
Federal land bank associations	2,709,583	88,613	312,454	3,110,850
Federal intermediate credit banks	1,181,236	430,459	141,611	1,753,306
Production credit associations	2,309,491	1,645,739	96,157	4,051,387
Banks for cooperatives	835,825	251,795	123,505	1,211,125
Grand Total	**$9,745,705**	**$3,702,772**	**$1,923,590**	**$15,372,067**
Less intercorporate items	3,820,599	338,167	—	4,158,766
Net Total	**$5,925,106**	**$3,364,605**	**$1,923,590**	**$11,213,301**

Table 5
$Thousands

Gross Assets of Farm Credit System as of June 30

Banks and associations	1980	1981	1982
Federal land banks	$38,116,227	$45,894,900	$53,454,820
Federal land bank associations	2,377,441	2,843,301	3,293,250
Federal intermediate credit banks	20,915,004	23,292,990	23,110,867
Production credit associations	23,112,205	25,591,942	25,913,500
Banks for cooperatives	9,178,998	10,298,336	10,410,537
Grand Total	**$93,699,875**	**$107,921,336**	**$116,182,974**
Less intercorporate items	21,973,353	24,378,745	24,882,244
Net Total	**$71,726,522**	**$83,542,724**	**$91,300,730**

Table 6
$ Thousands

Amount of Loans and Discounts Made by Farm Credit System, Year Ended June 30

Banks and associations	1980	1981	1982
Federal land banks	$10,700,253	$10,724,765	$10,369,987
Federal intermediate credit banks to OFI's	1,697,840	1,831,691	1,859,999
FICB participations with PCAs	67,956	60,855	63,618
Production credit associations	31,983,189	34,660,522	33,920,693
Banks for cooperatives	20,949,506	24,426,067	24,449,468
Total	**$65,398,744**	**$71,703,900**	**$70,663,765**

Table 7
$ Thousands

Amount of Loans and Discounts Outstanding for Farm Credit System, as of June 30

Banks and associations	1980	1981	1982
Federal land banks	$35,579,141	$42,692,982	$49,289,255
Federal intermediate credit banks to OFI's	754,980	958,398	938,744
FICB participations with PCAs	33,132	27,728	19,867
Production credit associations	20,680,545	22,719,155	22,518,460
Banks for cooperatives	7,583,686	8,806,766	8,662,037
Total	**$64,631,484**	**$75,205,029**	**$81,428,333**

Table 8
$Thousands

Selected Comparative Data on Federal Land Bank as of June 30

Item	1980	1981	1982
Federal land banks			
Gross assets	$38,116,227	$45,894,900	$53,454,820
Loans outstanding:			
Number	578,189	620,412	661,802
Amount	$35,579,141	$42,692,982	$49,289,255
Loans closed during year ended:			
Number	102,090	89,522	85,453
Amount	$10,700,253	$10,724,765	$10,369,987
Repayment of loans during year ended[1]	$ 1,615,668	$ 1,689,721	$ 1,787,541
Real estate acquired during year ended:			
Number	70	93	174
Investment	$ 5,440	$ 11,385	$ 15,127
Real estate on hand:			
Number	69	64	143
Investment	$ 6,798	$ 6,238	$ 14,468
Bonds outstanding	$31,101,641	$37,186,916	$44,178,862
Net worth:			
Capital stock owned by Federal land bank associations	$ 1,972,245	$ 2,351,439	$ 2,709,570
Legal reserve	752,303	936,180	1,153,956
Surplus reserve	122,010	122,010	132,010
Earned surplus	646,914	903,458	1,249,863
Total Net Worth	**$ 3,493,472**	**$ 4,313,087**	**$ 5,245,399**
Federal land bank associations			
Number of associations	502	489	482
Net worth:			
Capital stock owned by borrowers	$ 1,966,446	$ 2,351,453	$ 2,709,583
Legal reserve and surplus	275,870	339,085	401,266
Total Net Worth	**$ 2,242,316**	**$ 2,690,538**	**$ 3,110,849**

[1] Includes principal matured, special principal payments, loans paid off prior to maturity

Table 9
$ Thousands

Selected Comparative Data on Federal Intermediate Credit Banks as of June 30

Item	1980	1981	1982
Gross assets	$20,915,004	$23,292,990	$23,110,867
Loans and discounts outstanding	19,278,323	21,290,137	21,214,851
Loans and discounts made	15,268,110	17,637,327	18,618,642
Repayment of loans	11,930,634	15,023,250	18,732,197
Unmatured debentures and bonds outstanding	17,642,008	19,635,241	19,702,612
Net worth:			
Capital stock owned by production credit associations	771,237	935,334	1,111,016
Participation certificates – Other financing institutions	46,242	57,916	70,220
Surplus reserve	63,068	63,068	63,068
Surplus	18,050	18,050	18,050
Legal reserve – Allocated to patrons and reserve for contingencies	239,578	300,912	367,392
Undistributed earnings	110,230	105,969	123,561
Total Net Worth	**$ 1,248,406**	**$ 1,481,249**	**$ 1,753,307**

Table 10
$ Thousands

Selected Comparative Data on Production Credit Associations as of June 30

Item	**1980**	**1981**	**1982**
Gross assets	$23,112,206	$25,591,942	$25,913,500
Number of associations	425	423	423
Number of members	467,149	468,288	483,096
Amount of loans made during year ended	$31,983,188	$34,660,018	$33,920,693
Number of members with loans outstanding	380,897	390,729	382,041
Amount of loans outstanding	$20,680,545	$22,719,155	$22,516,935
Total amount of collections of loans during year ended	$18,959,776	$23,906,282	$22,734,615
Amount of renewals	$ 9,220,775	$11,798,471	$11,030,902
Net worth:			
Paid-in surplus – FICB	$ 3,750	$ 2,550	$ 1,975
Capital stock owned by Federal intermediate credit banks	—	—	22,000
Capital stock owned by members	$ 2,094,152	$ 2,285,163	2,287,491
Equity reserve	10,024	8,099	7,737
Surplus	1,088,303	1,348,318	1,636,027
Unapplied earnings	100,921	109,482	96,157
Total Net Worth	**$ 3,297,150**	**$ 3,753,617**	**$ 4,051,387**

Table 11
$ Thousands

Selected Comparative Data on Banks for Cooperatives as of June 30

Item	**1980**	**1981**	**1982**
Gross assets	$ 9,178,998	$10,298,336	$10,410,537
Number of borrowing cooperatives	3,262	3,365	3,023
Loans made during year ended	$20,949,506	$24,426,067	$24,449,468
Repayment of loans during year ended	$12,508,788	$14,170,282	$13,154,849
Loans outstanding	$ 7,583,686	$ 8,806,766	$ 8,670,290
Unmatured debentures and bonds outstanding	$ 7,299,738	$ 7,791,709	$ 7,898,606
Net worth:			
Capital stock owned by borrowers and others	$ 680,299	$ 785,218	$ 835,825
Surplus – Reserved	88,111	88,111	88,111
Surplus	24,386	25,742	28,210
Surplus – Allocated to patrons	88,192	116,072	163,684
Undistributed earnings	76,794	119,605	95,295
Total Net Worth	**$ 957,782**	**$ 1,134,748**	**$ 1,211,125**

INTRODUCTION OF ASSOCIATES

Mr. WILKINSON. Thank you very much, Mr. Chairman. We again appreciate the privilege of reviewing with you the progress of the farmer-owned farm credit system and our role in supervising, examining, and regulating.

As you indicated, I am Donald E. Wilkinson, Governor of the Farm Credit Administration. With me, on my left, is Mr. Larry Edwards, who is Deputy Governor for supervision of this system, and on my right is Dr. George Irwin, our Chief Economist, who specifically has been watching very carefully the quality of credit that is now prevailing in the system.

We will be addressing a couple of topics. I will present a few areas of interest and then would be very pleased to respond to your questions, Mr. Chairman.

AGRICULTURAL CREDIT CONDITIONS

Knowing of your concern about agriculture, I need not review the stress situation prevailing in American agriculture. I would only emphasize it by indicating that too many farmers and ranchers and their cooperatives across the country have been forced to substitute debt for income. I think we could cite this by taking a look at what has happened in the last decade. Back in 1970, the farm debt stood at $53 billion; today it is over $215 billion. The cooperative farm credit system is playing a major role in that debt load today, as it has for many years, supplying 32 percent of the farm debt and over 60 percent of the agricultural cooperative debt.

Looking at the stress that is prevailing on this system, I would direct your attention to the highlights which we have presented in our report on page 2, which shows the changing situation. Specifically, we have normally absorbed in this system, during the past several years, a growth rate of 15 to 18 percent. At the end of 1982, system loans outstanding stood at $80.4 billion. That is a significant figure, but it was only a growth rate of 2.8 percent for this past year.

We have brought some information right up-to-date, Mr. Chairman, beyond what is in the report, because I think you are concerned with what is happening during this critical first few months of 1983. They are going to be tough ones in agriculture.

Let me talk about loans made first. Loans made by our institutions for the first 2 months of 1983—January and February—are down 11.6 percent from the same 2 months of a year ago. This reflects the fact that farmers are tightening their belts and are attempting to live within the agricultural situation at the present time.

We could go on, I think, and stress a concern that you have expressed, as have other members, and that is, what is the attitude of the farmer-owned system in working with farmers who are facing distress? We have a responsibility, as designed and defined more carefully by this Congress over the years. Our Federal board, at its meeting in February, restated its forbearance attitude, remembering, Mr. Chairman, that there are no Government dollars in any part of this system or in this agency, and, therefore, the system has to be run as a sound credit institution. I quote from the Federal board's statement on lending under stress conditions, dated February 1983.

> The Federal Farm Credit Board reaffirms the system's long-standing policy of forbearance—that is, sticking with a borrower so long as there appears to be a reasonable possibility for him to work out of financial difficulties and establish a fully viable farm business.

This statement goes on to express how the system has and shall continue to work with farmers in other areas.

The point that must be recognized is that this is a cooperative system. A production credit association must be concerned about the membership of that organization and the soundness of its total financial obligations.

CREDIT QUALITY

As we look at credit quality, and I will touch on this only briefly, let me first explain what we actually mean by forbearance. I can give you some illustrations of that. One thing that would come under this Board policy and which is followed by all parts of the farm credit system is, of course, the opportunity for the borrower to renew his loans to cover his existing debt load. I cite in 1982, 32.8 percent of the PCA volume went for the purpose of renewal. It is high as a result of this stressful lending situation. For the Federal land bank system, 21.6 percent went for refinancing the Federal land bank loans. That is one opportunity that a loan officer has to assist farmers; he has many others. Much is determined by the relationship between that individual and that borrower, and that is the success story of this system. Another method is that he or she may defer principal payments. The entire loan may be reamortized. Farm Credit institutions can provide for short-term extensions. They can actually release real estate by suggesting that a portion of real estate be sold to try to keep the rest of the loan package solvent so a farmer may stay in business. The last thing that a loan officer or a supervisory bank or, in turn, FCA ever wishes to get into is foreclosure. Mr. Chairman, this year is a different year than we have ever reported to you in the past. Let me share with you what is happening in agricultural credit across this country, giving you what, I think, are some trends.

We measure trends in credit administration through delinquencies, foreclosures, and finally, the actual foreclosure auctions. Delinquencies in the Federal land bank program, out of 668,000 loans, stood at 3.1 percent as of January 1—3.1 percent compared to 2.4 percent the previous year. While this is higher than we have had in many years in the farm credit system, I think you would find that it is a rather enviable situation with other commercial lenders. In the short-term credit portion of the system—the production credit associations—delinquencies, out of nearly 383,000 loans, stood at 3.3 percent. That is slightly higher than it was the preceding year.

I have already indicated that foreclosure auctions are not desirable, but, unfortunately, there are some. In 1982, there were 1,370 foreclosure auctions taking place in the land banks. This is a long, drawn-out process, some of them take 3 and 4 years. That is considerably higher than it was in 1981, when the figure was 719. In the production credit associations there were 1,072 foreclosure auctions in 10 of our districts, considerably higher than during the preceding year.

Mr. Chairman, if you have watched some of the recent television reports, you know that all lenders are facing these difficulties. The farm credit system is not immune to some foreclosure auctions. That is the final action. And lest one be deceived by TV, I would indicate that of 1 million loans, only 1,255 in 1982 had to go to the final stage of a foreclosure auction. With all of this, the system still took on 24,000 new borrowers in 1982.

In summary, Mr. Chairman, we are completing a most difficult period during these first 3 to 4 months of 1983. It is a time when all farmers and ranchers evaluate what their credit needs are. We, at this stage, believe that the production credit associations will be supplying credit to some 96 to 98 percent of their existing borrowers. We believe that much has been learned during the last 2 and 3 years by both the borrowers, as well as their loan officers. They are learning to live with stress. They are using new techniques, and most fortunately, most of them are communicating far better than ever before. We believe the system is going that extra mile, fulfilling its mandate.

I would only cite, at this moment, the fact that last year production credit associations losses amounted to 75 percent of all of the losses faced by the production credit associations during their 50 years of existence, a figure that amounted to $160 million. Some of those losses, as you know so well, were in the New Orleans District.

But, the system is sound. It has a reserve for loss program. It will be there next year serving the borrower. It provides a program of integrity and security, which is our concern, and I trust is well recognized by the investment community.

Mr. Chairman, that concludes my remarks, and my two colleagues and I would be pleased to respond to any questions.

Senator COCHRAN. Thank you very much, Governor Wilkinson, for the fine presentation that you have made and for the report which you have submitted to us. Your report to Congress, will be made a part of the record. I also want to include in the record your letter to me dated March 4, 1983, which I appreciate having very much. It describes the status of our farm credit system and some of the actions taken by the Federal Farm Credit Board at its February meeting. Attached to that letter is a statement dated February 1983 on lending under stress conditions from the Federal Farm Credit Board. That statement will also be included in the record.

[The letter and the attachment follow:]

LETTER FROM DONALD E. WILKINSON

MARCH 4, 1983.

Hon. THAD COCHRAN,
Chairman, Senate Appropriations Subcommittee on Agriculture and Related Agencies, U.S. Senate, Washington, D.C.

DEAR MR. CHAIRMAN: As all of us are painfully aware, American agriculture is today experiencing its worst financial pressure since the 1930's. Suffering farmers are caught in the squeeze between too many consecutive years of poor prices and rising production costs.

The Federal Farm Credit Board, in its February meeting, expressed deep concern over present conditions and reaffirmed the commitment of the farm credit system to a policy of forbearance—that is, sticking with a borrower as long as there appears to be any reasonable possibility of working out of financial difficulty. The Board emphasized the need for appropriate loan servicing that will benefit borrowers with such prospects who are cooperating and are making an honest effort, despite adverse circumstances beyond their control, to meet the obligations of their loan contracts.

In the statement that the Board has adopted—a copy of which is attached—it also noted that "foreclosure or such other drastic action is to be avoided unless and until there is no reasonable course of action remaining." Fortunately, the management ability and financial position of the vast majority of the system's borrowers are such that decisions leading ultimately to foreclosures must be made in only a very small number of cases, especially when compared to the total number of borrowers. In calendar year 1982, Federal land banks (FLB's), with 667,000 loans outstanding, took actions resulting in 385 foreclosure auctions nationwide. Production credit associations (PCA's) with 378,000 members with loans outstanding, took actions that resulted in 870 farm foreclosure auctions nationwide. This means that, even under continued bad conditions, less than 12 one-hundreths of 1 percent (0.11998 percent) of the more than 1 million farm credit system loans outstanding were foreclosed through auction sales last year.

Let me assure you that the banks and associations of the farm credit system view foreclosure as a last resort only, and that we at FCA will continue to encourage them, through our supervision and examination, to go that extra mile with hard-pressed borrowers by exercising forebearance. Simply stated, forbearance means considering, on a case-by-case basis, whether to renew, reschedule, defer payment, reamortize, or otherwise continue credit for borrowers who have reasonable prospects for financial recovery. Unfortunately, we do not have data to measure the number of such actions that have been taken. But we know there have been large numbers, and the need for this kind of servicing is further evidence of current financial difficulties.

Of course, farm credit system institutions are private borrower-owned cooperatives that obtain loan funds through the sale of securities. Therefore, we must also be conscious of the need to maintain the financial soundness upon which rests the good reputation that farm credit securities currently enjoy among investors in the financial market. For that reason, we cannot permit excessive levels of losses to develop without jeopardizing the financial access of all borrowers.

It must be recognized, too, that there are situations where no reasonable prospect for recovery exists, where continuation of credit will only increase losses to the farmer and to the lending institutions. In most cases, farmers recognize this and make adjustments in their operations, including, in some cases, liquidation of assets to reduce indebtedness to a more manageable level and to protect their remaining equity. Such actions are still more evidence of farm distress. Because both voluntary actions of this kind and formal servicing by the FCS occur prior to a foreclosure auction, our foreclosure data (quoted above) measure only the most severe of the cases in distress. We wanted you to know that our efforts are focused on avoiding such actions in every possible way.

As you know, the Farm Credit Administration is an independent Federal agency responsible for supervising, regulating, and examining system activities. If at any time we can be helpful to you in answering questions you might have about the status of the farm credit system and its borrowers, please do not hesitate to contact us. We always appreciate the opportunity to be of assistance.

Sincerely,

DONALD E. WILKINSON, *Governor.*

Attachment.

FEDERAL FARM CREDIT BOARD

STATEMENT ON LENDING UNDER STRESS CONDITIONS

Recognizing the current plight of the Nation's farmers in which they have experienced declining prices in the face of mounting operating costs, the Federal Farm Credit Board pledges the fullest support of the cooperative farm credit system in doing what it can to assist hard-pressed member-borrowers while continuing to carry out the intent of Congress by maintaining a viable credit delivery system. The Federal Farm Credit Board reaffirms the system's long-standing policy of forebearance—that is, sticking with a borrower so long as there appears to be a reasonable possibility for him to work out of financial difficulties and reestablish a fully viable farm business. In so doing, system institutions must be prepared to require that adjustments be made or disciplines exercised to help assure the borrower's ultimate recovery. Foreclosure or other such drastic action is to be avoided unless and until there is no reasonable alternative course of action remaining.

In carrying out this policy, strong emphasis must be placed on appropriate loan servicing that will benefit the borrowers who are cooperative and making an honest effort to meet the conditions of the loan contract. It is recognized further by the Board that the desire to stay with farmers in difficulty must be balanced against the need to maintain the good reputation farm credit securities have in the financial market, thereby assuring the system's ability to raise loan funds. Since the farm credit system is a privately-owned institution, it has an obligation to all the farmers who own it to run a sound business and not put some borrowers in a position of subsidizing defaulting borrowers as a result of excessive interest and loan losses.

Thus, the Federal Farm Credit Board recognizes its obligation to protect the interest of the system borrowers—both present and future—as well as the interest of investors upon whom the system depends for loanable funds.

CORRELATION OF LAND VALUES TO FARM DEBT

Senator COCHRAN. I was interested in the numbers you quoted comparing the total farm debt several years ago to the $215 billion farm debt situation that farmers have today. I wonder if you have any figures indicating the increase in land values over that same period and whether or not land values have increased at the same rate as farm debt.

Mr. WILKINSON. Would you permit me to call on Mr. Irwin, Mr. Chairman?

Senator COCHRAN. Sure. I have forgotten the date you used for the figures.

Mr. WILKINSON. $53 billion at the beginning of the 1970's, 1970 specifically, and $215 billion as of January 1, 1983.

George, could you share with us the correlation of land values to the debt load?

Mr. IRWIN. Much of the increase, of course, in the debt load is because land values rose so rapidly during the 1970's. The problem of trying to assess what is going on right now is that land values took a reverse in the last couple of years, and it is a little bit uncertain exactly where they have stabilized. Any way you would look in bulk at the increase in the outstanding debt would be associated with land values.

Senator COCHRAN. Well, we don't seem to have a figure then to indicate the percentage of increase in land values. Would it be fair to say that it closely approximates the increase in farm debt?

Mr. IRWIN. I don't believe that is quite correct. The other major category when you are talking about outstanding debt is purchase of farm machinery, and mechanization proceeded at a pretty rapid rate in the seventies. We could certainly dig out for the record some information for you.

Senator COCHRAN. I would be interested in having that information. I can't recall ever having seen it. I suppose somebody at the Department of Agriculture has that information in their pocket and can bring it out and recite from it from time to time. I would certainly be interested in knowing it also. I haven't heard any testimony to that effect. Maybe we should have asked the Under Secretary, who has jurisdiction over loan programs, a question on this subject when he was before us.

OUTLOOK FOR DEBT-TO-INCOME RATIO

Well, there is no question that farmers are in a credit crisis this year, and your testimony clearly supports that. Is there any indication to you or to your Board that in the future we may see an improvement in the ratio of debt to income compared with this year? For instance, this year we have $19 billion in net farm income and are trying to support and finance an indebtedness of over $200 billion. Is that debt-to-income ratio going to improve next year?

Mr. WILKINSON. I think we would first indicate that the immediate concern is the ability of the farmer to cash flow his debt load and other expenses during 1983, and I would here, Mr. Chairman, have to recognize the merits of the payment-in-kind program. That will be of some value. But we would stress that, as it is of value to the farmer, it is causing some major concern to some of our cooperative stockholders who are the normal suppliers of fertilizers and chemicals and seeds. So, short-term, there is some gain. But we must recognize, as we do in our credit institutions, that the payment-in-kind program is a short-term effort. It has much merit. We believe in it. The long-range answer, frankly, is not one that we have any great optimism about at this present time. What has to happen is a general improvement in farm income, due to an increase in commodity prices, and an expansion of export marketing.

Senator COCHRAN. Well, that has been happening this year; hasn't it? Over the last 6 months, haven't you seen a substantial increase in commodity values?

Mr. WILKINSON. In selected areas. There has been improvement in livestock.

Senator COCHRAN. Cotton has gone up; sorghum has gone up; soybeans have gone up; wheat has gone up. What has gone down?

Mr. WILKINSON. Cotton.

Senator COCHRAN. No; it hasn't, it has gone up. It has substantially increased in the last 6 months.

Mr. WILKINSON. The general financial situation with too many of our cotton producers is not a good one yet, and we hope any improvement will be a continuing one.

Mr. Irwin, do you have additional information on that?

Mr. IRWIN. I guess if you are dealing in a situation where farm income needs to improve in relation to the amount of farm debt, things are definitely out of balance at the moment. If you are looking at the prospects for 1983, we have seen this improvement in prices, but only to a certain level at which the very large stocks in farmer or government hands will be released back into the market. So that puts a cap on how far that income can improve. Of course, the advent of the PIK program made the livestock economy look relatively less good and the crop economy relatively better. We suspect there will continue to be a need for some kind of a program next year, again to get commodity stocks down to a level where prices can improve to get a balance in this income.

The other thing we have to note is off-farm income which is a very important component of the support to this debt load as well, and that, too, has been under some rather severe stress in the last couple of years. So, you have to deal with both components of that, or else you have to deal with getting the debt load down to levels of lower income, if lower income is the role of the future. I guess our inclination is to expect that income will go up rather than go down.

PROJECTION FOR INTEREST RATES

Senator COCHRAN. What is the projection on interest rates in your shop for next year? Are you making a guess on that?

Mr. WILKINSON. I am glad you used the term guess, because we have no crystal ball that can anticipate what the actions of the Federal Reserve will be. However, we are in the position of having to give some counsel to our farm credit system institutions and loan officers and, of course, to our own farmers. For 3 consecutive months, beginning at the end of 1982 and on into 1983, our rates, as we secured funds from the money market for 6 months and 9 months, were very stable—at 8.5 percent, for example, for 6 months. That has now gone up over 10 percent, and we are expecting that longer term funds will be costing us about 10 percent or more as we go to the market this next week. The general feeling from our fiscal agent in New York City, as he works with the market, is that this will be a relatively stable year, not as volatile as we have witnessed in the past. Strong interest rates continue. That means 9, 10, 11 percent possibly, but no major trends one way or the other. Again, I would couch all of this on the fact that a lot of it depends on the actions of the Federal Reserve and their control of the money supply, Mr. Chairman.

If you have further counsel for us about interest rates, we would welcome anything we could get.

Senator COCHRAN. I guess we should have asked Philip Johnson when he was here. Some of those markets trade in futures options. A person can guess what the interest rate is going to be and make a lot of money these days if the right contracts are purchased. I would have no idea.

FORBEARANCE

In your letter and the attached statement dated March 4, to which I referred earlier, you talk about forbearance and discuss terms of foreclosures and forced liquidations. I get reports back from some of my constituents that forbearance doesn't necessarily mean don't foreclose. You are having some foreclosures or forced liquidations, and you talked about that in your statement. Last year, I think the figures were that you had in the PCA's some 870 farm foreclosures, and in the Federal land banks some 385. That all amounts to about twelve-hundredths of 1 percent of the total loans in the farm credit system. What is the outlook for this year? Do you have any figures that would indicate that those numbers are going to be about the same, or are they going to be higher?

Mr. WILKINSON. I have my views, Mr. Chairman. Would it be permissible, however, to ask my Deputy Governor for Supervision, because forbearance comes under our relationship with the program.

Mr. Edwards, would you respond to that?

Mr. EDWARDS. Mr. Chairman, I am not sure what the number might be, but we would expect that the number of foreclosures in 1983 will be higher than in 1982. There are a lot of farmers out there with forbearance actions that were taken in 1981 and 1982 who are simply exhausted. We do not expect to see a dramatic increase, but it will be up some.

Mr. WILKINSON. I think, Mr. Chairman, the point that you have made is a good one, and that is even under a very rigid forbearance plan, there will still be some who have been working so closely with their loan officers over the years that the ultimate result, as viewed by both of those parties, is they will have to search for other enterprises. There is no guarantee that everyone is going to be able to make it, especially during these critical times, and we are trying to stay with them as long as we can to get over this severe crisis period.

MORATORIUMS

Senator COCHRAN. There is some talk, particularly over in the other body of the legislature, of a moratorium in Farmers Home Administration loan foreclosures. What would be your advice to the Congress about the wisdom of enacting a moratorium on foreclosures?

Mr. WILKINSON. Mr. Chairman, we have addressed this on page 20. We addressed forbearance and the issue of moratoriums.

Senator COCHRAN. That is in the report?

Mr. WILKINSON. It is in our report. But I would specifically like to respond to that, and I am going to respond, if I may, sir, to not what a moratorium may mean to a Government lending program, such as Farmers Home, because I think Mr. Naylor and Mr. Shuman can very effectively respond to that.

I would like instead, to address what a moratorium imposed upon a private or commercial lending institution, such as the cooperative farm credit system, means. First, I would indicate that when you are able to deal on a one-to-one basis with the borrower, the loan officer has many options already available to him. He can work with the borrower and postpone payment of both principal and interest. But a blanket moratorium imposed on any commercial lending institution, especially a cooperative one, is actually imposing a penalty upon the sound borrower, because the production credit association, through its banks and the system goes to the money market to obtain money to lend. They have an obligation to pay the investment community a given interest rate on that principal. Payments shall be made. If there is a moratorium imposed because of the difficulty faced by some borrowers, then the other borrowers are going to be paying a higher interest rate to that credit institution.

Second, a moratorium in agricultural lending sends a signal which causes concern to me. It is a signal to the commercial lenders, the banks, the insurance companies, and others, that perhaps agriculture is not a sound place in which to continue to participate. And, Mr. Chairman, I am the first to evidence that agriculture needs all of the lending institutions it can get now, and in the future, to serve our economy. A moratorium would send the wrong signal.

Finally, a moratorium in the commercial lending institutions, as I indicated, would increase costs to the farm credit system and would perhaps drive other lenders away, thus causing more borrowers to go to the Government lending institutions—CCC programs, but especially Farmers Home Administration.

I hope I have evidenced to you my concern regarding any concept of a moratorium, a blanket moratorium, being imposed at least upon commercial lending institutions, including the cooperative farm credit system.

Senator COCHRAN. I think there is no doubt that we are seeing a restructuring of agriculture now, whether it is because of the farm credit crisis, production anomalies, where we have had bumper crops 2 years in a row and deteriorating prices, or just the general world economic condition. Is this a time to restructure our farm credit system? Should we enact some kind of new program that would provide lending to farmers on a different basis, expand the Farmers Home loan program, or take some other action that would help meet the crisis now? Or is it appropriate just to sit back and let nature take its course without any major changes?

CHANGING AGRICULTURAL COMMUNITY

Mr. WILKINSON. No, Mr. Chairman, it is not a time to sit back and let nature take its course, nor is it a time for the other extreme, that is, to bring about any radical changes in any of the credit institutions, whether Government or otherwise. It is, however, an excellent opportunity for any lending institution, including the Farmers Home Administration, the farm credit system, and the commercial bank system under its new deregulated environment, to evaluate what each should be doing now, especially as we go on into the future and try to serve a changing agricultural community. You are so right in recognizing that agriculture is not frozen in its present structure. It will be changing. There will be larger borrowers, but there will be a continuing number of many, many part-time borrowers and small borrowers entering the business who will also have to be served.

The farm credit system is, this very year, going through some celebration, if that is the term. Anniversary is a better term. Fifty years of the production credit associations, 50 years of the banks for cooperatives, 50 years of the Farm Credit Administration itself. This has been, and will continue to be, a time for the farm credit system to evaluate what took place that generated the success of the farm credit system during this past half century, what of those elements should be retained, and what new additions must be added to the system. To do this, Mr. Chairman, the system has established several committees, the most important being the overall long-range planning committee for the entire system. It will look at the changing borrower, the changing cooperative structure, agricultural cooperatives, and the changing structure of the farm credit system itself. Should the system be bringing about other changes, one of those being to improve the way the various institutions, the PCA's and the Federal Land Bank associations, work together at the local and district level to serve a common borrower? That improvement is taking place across the system now.

The future is going to be very demanding on the source of credit, because the larger borrowers are going to need more than just credit, they are going to need services. I cite, for example, computerization. They are going to communicate from their farm kitchen, from their office, via a computer to the loan office, whether it is a PCA or commercial bank or whatever else. They are going to need services for estate planning and financial management. It will be more than the question of who can bring the farmer credit at the most reasonable cost; it will be a question of who can offer a total financial package. The system is recognizing the very point that you have expressed, and it will be working on it.

Mr. Chairman, I would not suggest at this point any special effort on the part of Congress in evaluating necessary change, but I would recommend to you, sir, that you continue to evaluate whether the different systems, including our agency, are doing these things which I have just talked about and doing them effectively, evaluating how they must better serve the borrower.

Senator COCHRAN. Well, there is no doubt in my mind that there is a continuing need for cooperation between the different aspects of our credit industry. The Government's role, the private sector's role, the farm credit system as well, all have important responsibilities to make sure that we meet the needs of American agriculture today and in the future. I am not satisfied that under the present rules and regulations and laws that the future challenges are going to be met. I think there is going to be a tremendous upheaval in a lot of what they call in modern terms "financial dislocation." When I got to Congress, I found out that that means a lot of folks are going to go broke. That is a nice way of putting it.

POSSIBLE LEGISLATIVE CHANGES

I wonder if there is any way to prevent this from occurring by making needed changes. There is legislation, for instance, in the hopper here in the Senate. The Agriculture Committee reported out a farm credit initiative recently that may be taken up on the Senate floor fairly soon which would increase the operating loan limits for insured loans to farmer borrowers, extend the repayment period from 7 to 15 years, and make other needed changes. What is your reaction to that kind of legislation? Is that going to put more pressure on the farm credit system—the PCA's, and the Federal land banks?

Mr. WILKINSON. I am not sure it would put any more pressure on it than it would have had in any case, but we do support the concepts of the farm credit bill which you have addressed, Mr. Chairman. There is a continuing need for the Government agency—the Farmers Home Administration—as a lender of last resort; there will always be that need, in my estimation. I think that FmHA will have to do, as I indicated, what the system is doing, and that is to evaluate what is needed to perfect its method of serving its unusual, unique type of borrower. They have as many changes and differences in their portfolio as do commercial lenders. It is my hope that there may be the opportunity, especially as we see some improvements in agricultural income, for the Farmers Home Administration and the cooperative lenders, including the farm credit system, to graduate the higher portion of the FmHA portfolio to the farm credit system or the commercial banks, thus relieving the tax load and allowing the Farmers Home loan offices to concentrate on those borrower files remaining in their portfolio. Your proposed bill has much merit, as we view it from our vantage point as a commerial lender, Mr. Chairman.

Senator COCHRAN. Well, it will be interesting to see what response the Congress and this administration make to the important challenge we face in farm credit.

LAND BANK MOVE TO JACKSON

Last year, we asked you about the status of the move of the bank from New Orleans to Jackson. I know that is progressing and, as a matter of fact, saw recently some indication in the newspaper of activity regarding the new building. How is that move going? What is the status of that?

Mr. WILKINSON. The move was going smoothly until this past week.

Senator COCHRAN. What happened?

Mr. WILKINSON. It is only the same very serious problem that many of your constituents faced in Mississippi and that is——

Senator COCHRAN. High water.

Mr. WILKINSON. High water. The New Orleans banks were actually closed last Friday. They are located on St. Charles Street in New Orleans, and they were flooded.

Second, the construction at Jackson has been delayed several days, possibly going into 2 or 3 weeks now, because of the very serious excessive moisture condition over the last several weeks. It is right at that stage where it can be detrimental. However, there are no other serious problems. The Farm Credit Administration is very pleased with the administration of that move of those very major banks to Jackson, Miss. We look forward to it being accomplished in an efficient manner and believe it will help the banks achieve their objective of serving the borrowers in a better way.

Senator COCHRAN. I suppose it is too early to say whether this will delay the planned opening of that facility. What is your estimated completion date?

Mr. WILKINSON. I have not received a final estimated date of the move. It is our hope that it is at that stage where it will not cause a total delay in the final construction of the building. The banks are able to proceed with the acquisition of supplies and materials. Hopefully, they can catch up on construction with some good weather.

Senator COCHRAN. Thank you very much, Governor Wilkinson. I appreciate you and your colleagues being here today and making this presentation to our committee. I think it is very important to be kept up-to-date on an annual basis on the activities of the farm credit system and to know what your thoughts and views are on the appropriate role of Government programs and actions by the administration and Congress and to try to help restore genuine health and vitality to the agricultural sector. We appreciate your counsel and your willingness to be here each year and your cooperation with the subcommittee.

Mr. WILKINSON. Thank you, Mr. Chairman.

[The following questions were not asked at the hearing but were submitted for response for the record:]

QUESTIONS SUBMITTED BY SENATOR COCHRAN

Overall Farm Credit Picture

Question: Stories of gloom and despair on the farm abound as farmers face difficult management decisions, low prices and income and target credit in many cases. What is the prognosis for the farm economy and for the farm credit situation, both short- and long-range?

Answer: The high level of PIK program participation has improved total income prospects for 1983 and has shifted the income distribution toward the crop farming sector. Most of the improvement is due to a lowering of production expenses outlays, although there has been some commodity price improvement. However, sustainable price gains are limited by the availability of huge crop inventories. It appears that these stocks will be worked down, but we still have prospects for excess stocks in 1984 and a potential need for further crop reductions. Reduced marketings and restricted price gains will limit the improvement in farm income for the next 2 years. While higher net returns will help the credit situation, some farmers are in a deteriorated financial condition and will face continuing difficult circumstances for at least the next 2 years.

Farm Credit System Participation

Question: How many farmers does the Farm Credit System finance currently, and what percentage does this represent of all farm debt?

Answer: At the end of 1982, the Federal land banks had 667,912 loans outstanding and the PCAs had 382,810. The total of 1,050,722 was an increase of 24,164 from a year earlier. Preliminary data indicate that the Farm Credit System was providing 43.5 percent of the farm real estate debt and 20.1 percent of the nonreal estate debt. Thus, they had 32.0 percent of total farm debt.

Shortage of FmHA Operating Loan Funds

Question: Just last week, Congress was apprised of the shortages of FmHA operating loan funds in several states.

What is your assessment of impact of this shortfall on farmers and on the farm credit system generally?

Answer: FmHA serves as a lender of last resort, picking up borrowers unable to qualify from commercial sources, such as the Farm Credit System. We estimate that 96 to 98 percent of our 1982 borrowers will continue to qualify in 1983. Those who do not would be potential candidates for FmHA. We are not in a position to know exactly which FmHA applicants might be affected by a shortage of funds, although we can expect that it will create some hardship, unfortunately.

Farm Income Projections

Question: What are your farm income projections for this year and for fiscal year 1984?

What was last year's level?

Answer: The preliminary estimate of 1982 net farm income is $20.4 billion. Before signup for the PIK program, the 1983 estimate was for a decrease of about $4 billion. With PIK, we expect income to be about at the same level as in 1982, or a little higher. Much depends on the 1983 growing year and on the resumption of growth in export demand. With another acreage adjustment program in 1984, we would expect further improvement in income figures.

Farm Debt

Question: What are your figures on total farm indebtedness for fiscal year 1982? Do you have estimates for fiscal years 1983 and 1984?

Answer: USDA's preliminary estimate of farm debt on January 1, 1983, is $215 billion. Complete data are not available on a fiscal-year basis. However, CCC activity was particularly heavy in the October-December quarter, suggesting that the September 30, 1982, level would have been considerably lower. Farm debt grew much more slowly in 1982 than in recent years. It increased by 6.6 percent in 1982, including a 69.5-percent gain in CCC, compared to growth in the 9.7-18.2-percent range during the previous decade. The farm debt slowdown reflected reduced rates of land turnover and reduced activity in financing farm machinery purchases. We expect loan activity to continue to be slow through 1983, and until farm income prospects have clearly improved and farmers have improved their financial condition.

Debt-to-Income Ratio

Question: What are the debt-to-income ratio figures for fiscal years 1982 (actual), 1983 (estimated) and 1984 (estimated)?

Answer: Farm debt is repaid out of two income streams -- those from farming and those from the nonfarm activities of persons engaged in farming. Both income sources have suffered due to recent economic conditions. We do not have projections for 1983 and 1984, but see little improvement in prospect. On a calendar year basis, the figures for 1982 are as follows:

Farm debt	**$215.0 billion**
Net farm income	20.4 billion
Net nonfarm income	41.0 billion
Total income	**61.4 billion**
Ratios: Debt to/	
Net farm income	10.5
Nonfarm income	5.2
Total income	3.5

Foreclosures and Forbearance

Question: I have heard from a number of farm constituents that they get the impression that "forbearance" is not the watchword; especially with PCAs. Do you feel this policy has filtered down to all System banks and PCA's around the country?

Answer: Forbearance has been a longstanding policy of the Farm Credit System. This policy was reaffirmed by the Federal Farm Credit Board in February of this year, when it adopted a policy statement emphasizing the need for System institutions to work with a borrower as long as there appears to be any reasonable possibility of working out of financial trouble. There are now many loan servicing actions available that System institutions utilize in working with borrowers in these difficult economic times--including principal deferment, re-amortization, loan extension, refinancing, renewal, and voluntary liquidation.

The Farm Credit Administration remains fully committed to ensuring that this policy statement is communicated to and implemented by all Farm Credit institutions. All System banks have been provided copies of the Board's policy statements after the February meeting. In addition, this policy has been addressed by Agency representatives at our district stockholders' meetings.

Question: Some farmers have also pointed out that loans they have with the Federal land bank and a local PCA are often "cross-collateralized," and that they get caught in a squeeze between two seemingly competitive institutions that are really part of the same system. Is this a prevalent problem? Are special arrangements available to competent, solvent farmers who merely happen to be cross-collateralized in this type of situation, and who cannot--are not allowed to--liquidate a particular asset to satisfy another loan because an FLB or a PCA won't release it?

Answer: By "cross-collateralized" I assume you mean that an FLB and a PCA have liens on the same asset. The potential for "cross-collateralized" assets to become a prevalent problem is limited because it generally could only occur when real estate is the asset involved. By law, the FLB must have a first lien on real estate. The PCA may then have a second lien or lower priority lien (if another lender is involved) on the real estate as additional collateral for its short- or intermediate-term loan, which is generally made for livestock, inventories, production inputs, or equipment. Sometimes, the PCAs provide funds for the downpayment for a farmer to purchase real estate and may take a lien behind the first mortgage lender. It is to the advantage of the borrower and the lender involved to work out a suitable arrangement.

The PCAs and FLBAs, by design, complement each other, thereby limiting competitive lending practices. However, at times, they may not fully coordinate their actions when the loans are in a workout position. The Farm Credit Administration places special emphasis in its supervision and examination of Farm Credit banks on coordination and communication between System institutions.

For many years we have encouraged district boards to require policies to enhance coordination between the FLBAs and PCAs. In October 1982, the Federal Farm Credit Board adopted a stronger policy statement on coordination with the objective of improving the quality of service to member/borrowers of the System.

Question: In your letter, you state that "in calendar year 1982, Federal land banks (FLBs), with 667,000 loans outstanding, took actions resulting in 385 foreclosure auctions nationwide. Production credit associations (PCAs), with 378,000 members with loans outstanding, took actions that resulted in 870 farm foreclosure auctions nationwide. This means that, even under continued bad conditions, less than 12 one-hundredths of 1 percent (0.11998 percent) of the more than 1 million Farm Credit System loans outstanding were foreclosed through auction sales last year.

How are the numbers for these activities running at this point in fiscal year 1983, and what are your full year estimates for fiscal years 1983 and 1984?

Answer: The numbers I have given you are the most recent numbers compiled by FCA. Statistics for the quarter ending March 31, 1983, will be available within the next 30 days as part of FCA's quarterly credit monitoring process. As in the past, we will send you a summary of that report as soon as it is available. We do anticipate the number of foreclosure auctions on Farm Credit System loans to show some increase for 1983 over Calendar Year 1982; however, no specific estimates of foreclosure auctions have been formulated for either 1983 or 1984.

Interest Rates

Question: What is the final report on Farm Credit System interest rates for fiscal year 1982, and what is the outlook for fiscal years 1983 and 1984?

Answer: Farm Credit System interest rates declined modestly during 1982, as bonds sold during periods of extremely high rates matured out of the portfolio. This permitted some reduction in both FLB and PCA interest rates. However, the variable rate pricing system used means that average costs came down more slowly than prices on recent bond sales. Financial markets are currently in a state of uncertainty over Federal Reserve policy, likely Federal budget deficits, and international credit problems. Until these problems are resolved, we expect rates to fluctuate near the current ranges. The FLB rates to borrowers at yearend ranged from 11.5 to 12.5 percent, while the most frequent PCA rate was in the range of 12.5 to 13.0 percent.

Farm Credit System Market Activity

Question: How is the Farm Credit System fairing in the bond market? Will we see increased or decreased activity in fiscal years 1983 and 1984?

Answer: The Farm Credit System's program to market its debt securities is probably in the best shape it has been in for some time, from an acceptance standpoint, looking back over several years of high growth rates and high interest rates. The market has not required high prices for Farm Credit securities despite the stress in the agricultural community. The cost of System securities versus the cost of Treasury securities has narrowed. This is true for both the 6- and 9-month issues and the longer term maturities. Several reasons account for this situation. One, there is the large volume of Treasury securities coming on the market. Also, investors are looking for alternative type securities. Second, the volume of Farm Credit securities and, as a matter of fact, other agencies' securities in the housing sector, have declined as a result of the economics of those industries. Therefore, there is more of a scarcity factor for Farm Credit instruments. Third, there continues to be concern in the market about quality, and investors are looking for securities that have prime ratings or are riskless investments. The concern for quality always benefits agency securities.

For Fiscal Year 1983, the Farm Credit System has had (since October 1) a net reduction of securities in almost every sale. Not only is the new money declining sharply, but the gross issues are in a steady decline. This situation will probably moderate somewhat between now and the end of this fiscal year, with 1984 showing a slight increase. The volatility in the System's lending volume has an immediate effect on the marketing program for Farm Credit securities. The System does not hold a reservior of funds; therefore, the swings in agricultural lending impact immediately on the System's funding activities.

Agricultural Exports

Question: What are your assumptions and estimates concerning agricultural exports in fiscal years 1983 and 1984?

Answer: We are not optimistic for 1983, but see significant possibility of a recovery during 1984. The prospect for exports is, of course, heavily conditioned on the rate of recovery in demand from countries importing our commodities. That revolves around when economic recovery begins in these countries, around the success of U.S. negotiators in heading off more restrictive trade policies, and around the extent to which other exporting countries expand their production and exports under the umbrella of U.S. output-restricting programs. Under these uncertain conditions, we have not attempted to make more precise estimates.

Loans Outstanding

Question: Please provide the Committee with the current total number of Farm Credit System loans outstanding as compared with this time last year.

Answer: Number of loans outstanding on December 31:

	1981	1982	
FLB	646,372	667,912	+21,540
PCA	380,186	382,810	+ 2,624

Farm Credit Administrative Activities

Question: I understand from your report that FCA annually examines each Farm Credit bank, and that loans are classified according to four quality ranges: (1) acceptable, (2) problem, (3) vulnerable, and (4) loss.

What are the criteria for inclusion in each category?

Answer: Acceptable loans range from those of the highest quality down to and including those having significant credit weaknesses. Problem loans are those with serious credit weaknesses requiring more than normal supervision but believed to be collectible in full. Vulnerable loans are high risk loans considered collectible if repayment from sources available to the borrower occurs. If such repayment does not materialize, there is a probability of loss. Loss loans are those on which all or any portion is deemed uncollectible.

As we explain on Page 18 of our Report to Congress, important factors considered in classifying loans include:

- --Individual or entity (management ability, integrity and moral character, experience, etc.)
- --Repayment capacity
- --Loan purpose and basis of approval
- --Collateral offered or available as security

Additionally, a good deal of weight is given to the borrower's performance on other loans held by the Farm Credit System and other lenders.

Question: What is the ratio of administrative expenses to loans made in fiscal year 1982? What is projected for fiscal years 1983 and 1984? How do these figures compare with prior years?

Answer: The ratio of Farm Credit Administration expenses to loans made by the Farm Credit System was .022 percent in 1982. On the assumption that loans made will increase by 3 percent in 1983 and by 5 percent in 1984, the ratio is projected to increase to .026 percent in 1983 and to .028 percent in 1984. These figures compare to a range of .017 percent to .022 percent during 1977-1981. The projected increase in the ratio reflects, in part, a significant reduction in loan growth and increasing requirements for supervisory activity by the Farm Credit Administration, both resulting from adverse economic conditions.

Land Bank Move to Mississippi

Question: Last year, we discussed the moving of the land bank in New Orleans to Jackson, Mississippi. How is the building of the facility progressing, and where is it located?

Answer: Until just recently, construction was progressing well with most of the site preparation work completed. However, excessive rainfall in that area has now put construction approximately 3 weeks behind schedule.

The new building will be located in Ridgeland, Mississippi, just north of Jackson, on County Line Road between Interstate 55 and Old Canton Highway.

Question: When will the move actually be made?

Answer: The building is expected to be ready for occupancy during the summer of 1984.

QUESTIONS SUBMITTED BY SENATOR ANDREWS

Credit Analysis

Question: Why is the cash flow type of credit analysis being used so heavily to determine credit worthiness instead of looking more at the farmers net assets?

Answer: As mentioned in response to an earlier question, Farm Credit institutions evaluate five basic factors in making loans. These five credit factors are:

1. The individual or entity, with emphasis on integrity and management.
2. Financial position and progress.
3. Repayment capacity, which is indicated by cash flow analysis.
4. Basis of approval, which includes the loan amount, purpose, and repayment terms.
5. Collateral offered or available security.

All of these factors are analyzed as interrelated components for making a sound loan.

Net assets are important in determining financial strength or position and the ability to withstand financial adversity. However, cash flow analysis is essential to determine that the loan can be repaid without adversely affecting the borrower's financial position or requiring the sale of assets necessary to the ongoing operation of the enterprise.

Foreclosures

Question: Is the Production Credit Association and other Farm Credit institutions as committed to trying to help our farmers in these difficult times as the FmHA?

Answer: As you are aware, the primary roles and sources of funding for the FmHA and the Farm Credit System are different. The Farm Credit System provides sound, constructive credit to all credit worthy farmers, ranchers, and fishermen. Funds are obtained primarily through the sale of bonds to investors. The FmHA, on the other hand, is substantially a lender of last resort for farmers and ranchers. Funds used in FmHA programs are obtained through congressional appropriation.

Production credit associations and all other Farm Credit institutions are fully committed to helping distressed farmers get through these difficult times. The Farm Credit System is owned and controlled by its members, who are farmers, ranchers, fishermen, and their cooperatives. Thus, the Farm Credit System institutions are keenly sensitive to and aware of the difficulties confronting farmers. At the same time, of course, these institutions must also be aware of their responsibilities to investors and of the need to maintain a positive image in the bond market in order to ensure the continuous availability of funds to farmers, ranchers, fishermen, and their cooperatives. Through the exercise of forbearance, appropriate use of loan servicing tools, and reliance on a sound loan philosophy, the Farm Credit System is confident that it will continue to meet successfully the needs of both its member/borrowers and the purchasers of its securities.

Question: Shouldn't PCA and other federally chartered lending institutions be working harder at providing reasonable alternatives to keep our farmers on the land until our Nation's economic conditions improve?

Answer: I can only speak specifically about those federally chartered lending institutions known collectively as the Farm Credit System, of which PCAs are one part. Based on data collected as part of our credit monitoring process and on observations made in our supervisory work with the banks, Farm Credit System institutions are making every effort to continue financing those farmers having a reasonable chance for recovery. Of course, there are some farmers for whom, due to various reasons such as excessive debt loads and poor management practices, the continuance of financing is not realistic even under substantially improved economic conditions. I believe the Farm Credit System has adopted a reasonable and fair philosophy in dealing with its borrowers under the current economic conditions. This philosophy is reflected in the Federal Farm Credit Board's "Statement on Lending Under Stress Conditions," a copy of which is a part of this hearing record.

SUBCOMMITTEE RECESS

Senator COCHRAN. This marks the end of our subcommittee hearings for administration witnesses and official witnesses in connection with the request for funding of the programs under our jurisdiction for fiscal year 1984.

Next week, though, the subcommittee will have the opportunity to hear from others who have special interests in the programs under the jurisdiction of the committee. These 3 days of hearings will be on April 19, 20, and 21, beginning at 9:30 each morning. We invite anyone who is interested to submit statements for the record. The subcommittee will be very happy to have the benefit of that additional information.

So until then, Tuesday, April 19, the subcommittee will stand in recess.

[Whereupon, at 11:25 a.m., Tuesday, April 12, 1983, the subcommittee was recessed, to reconvene at 9:30 a.m., Tuesday, April 19.]

MATERIAL SUBMITTED SUBSEQUENT TO HEARINGS

[CLERK'S NOTE.—In lieu of holding a separate hearing to receive testimony on the various reports and ongoing studies of the General Accounting Office, the following information on items of special interest to the subcommittee was provided:]

Senate
Agriculture and Related Agencies Subcommittee

TITLE: Federal Domestic Food Assistance Programs: A Time for Assessment and Change
RPTNO: CED-78-113 DOCUMENT DATE: 06/13/78
ORGANIZATION CONCERNED:
Department of Agriculture
Department of Health, Education, and Welfare
Community Services Administration
PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements
LAW AUTHORITY:
Food Stamp Act of 1977
P.L. 95-113
91 Stat. 913
91 Stat. 958
91 Stat. 968
7 U.S.C. 2017
School Lunch Act
42 U.S.C. 1760(e)
Child Nutrition Act of 1966
42 U.S.C. 1780(b)
Older Americans Act of 1965

BACKGROUND:

Thirteen major Federal domestic programs, costing several billion dollars annually, provide food or food-related assistance to needy Americans. The programs are administered by the Department of Agriculture; the Department of Health, Education, and Welfare (HEW); and the Community Services Administration (CSA).

FINDINGS:

These programs have helped many people obtain more adequate diets. However, the large and accelerating costs of the programs, their piecemeal authorization and administration, and proposals for comprehensive welfare reform have created a need and opportunity to examine the programs' interrelationships and effectiveness. Multiple participation in the programs, which is sanctioned in legislation, has created a situation in which benefits often exceed amounts needed for thrifty food plan diets. Food stamp allotments ranged from 82 percent to 164 percent of the cost of such diets. Savings could be realized by making adjustments for different ages and sexes of household members. The extent of food benefit gaps and overlaps cannot be measured precisely because of inadequate data collection. Administrative problems result from varying eligibility criteria and procedures, lack of a uniform definition of needy, and inadequate program coordination. There is also a lack of adequate data to determine the proper level of benefits, interrelationships of the programs, and the nutritional effectiveness of the programs.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should adopt a uniform definition of the word ``needy'' and establish consistent criteria for determining who is eligible for Federal food assistance programs.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress should approve an explicit national policy on the appropriate levels of food assistance to be provided to needy Americans by the Federal Government.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress should authorize the Secretary of Agriculture to implement individualized food stamp allotments nationwide if Agriculture's demonstration projects show the administrative feasibility of such allotments.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress should consolidate major Federal food assistance programs by bringing under one program Federal cash and commodity assistance currently provided by the school lunch and school breakfast programs, and evaluate the need for Federal reimbursement of free milk served under the special milk program in elementary schools and child care institutions already participating in the school lunch, school breakfast, and/or child care food programs.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress, on the basis of results of the executive branch's feasibility study, should eliminate the receipt of duplicative benefits, particularly between the food stamp and school lunch programs, by allowing consideration of benefits received from one Federal food assistance program when determining eligibility and benefit levels for other Federal food assistance programs.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress, on the basis of results of the executive branch's feasibility study, should require a single State/local agency to be responsible for the application, certification, verification, referral, and monitoring aspects of designated Federal food programs to help assure, along with the authorization and implementation of consistent eligibility criteria and procedures, a more equitable and efficient delivery of Federal food assistance to needy Americans.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should initiate on a priority basis periodic national surveys of low-income households to determine the types and amounts of cash and in-kind food benefits received and the precise extent of current overlaps and gaps, both in terms of program costs and nutrient intake, among the major Federal programs involving food assistance, including Aid to Families with Dependent Children (AFDC) and Supplemental Security Income (SSI).

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should propose consistent income and asset eligibility requirements and procedures for the appropriate Federal food assistance programs and study the effects of such requirements and procedures on program participation, costs, and work incentives. The results of this study should be reported to Congress along with a recommendation for such authorizing legislation as may be necessary.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should develop and implement ways to measure, in a more coordinated, timely manner, the nutritional status of the general U.S. population, especially the participants and nonparticipants in the major Federal food assistance programs, including such traditionally high risk groups as the poor, the elderly, young children, and women of child-bearing age, and use this data to estimate the nutritional effectiveness of the Federal food assistance programs.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should establish demonstration projects in one or more localities to evaluate the increased administrative cost and error, if any, that would result from an individualized system of food stamp allotments; that is, allotment levels based on a recipient household's receiving the exact number of free food stamps needed to meet the difference between the cost of the thrifty food plan, as calculated for the number, sex, and ages of the members of that particular household, and 30 percent of the household's net monthly income for food stamp purposes. The demonstration project results should be reported to Congress.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should explore alternatives to the Special Supplemental Food Program for Women, Infants, and Children

(WIC) food delivery systems and, if appropriate, propose legislation to implement the best alternative.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

WIC vouchers are now for specific items; they are distributed to meet individual needs.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should provide mechanisms to assure that persons in need of, or receiving, specific benefits from such programs as school lunch, WIC, title VII, AFDC, or SSI are aware of and referred to other food programs that they are eligible for.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

With Public Law 97-35 (August 13, 1981), Congress prohibited use of Federal funds for outreach activities.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study ways for encouraging the exchange of information among local food program administrators to assist them in identifying potential or ineligible recipients. Legislative changes that might be needed to implement the procedures which the study finds to be the most effective should be recommended to Congress.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture, in conjunction with the Secretary of HEW and the Director of CSA, should study the administrative feasibility of: (1) considering food benefits from child-feeding programs; (2) using food stamps to purchase free or reduced-price meals under the child-feeding programs; (3) adjusting thrifty food plan costs to reflect potential participation in the child-feeding programs; and (4) turning over the application, certification, verification, referral, and monitoring aspects of the child-feeding programs and WIC to local welfare offices which now also handle food stamp certification, verification, and monitoring. The results of this study should be reported to Congress together with a recommendation for such authorizing legislation as may be necessary.

STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

Agriculture agreed with the importance of the report's issues. It commented that the report was flawed by analytical and conceptual errors. Agriculture stated that a number of changes in Federal food assistance efforts are warranted, and it proposed a number of actions.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: The Special Supplemental Food Program for Women, Infants, and Children (WIC)--How Can It Work Better?
RPTNO: CED-79-55 DOCUMENT DATE: 02/27/79

ORGANIZATION CONCERNED:
Department of Health, Education, and Welfare
Centers for Disease Control
Food and Nutrition Service
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:
Child Nutrition Act of 1966
42 U.S.C. 1786
Child Nutrition Amendments of 1978
P.L. 95-627
92 Stat. 3603

BACKGROUND:

A follow-on review of the Special Supplemental Food Program for Women, Infants, and Children (WIC), Department of Agriculture, was conducted.

FINDINGS:

Several WIC programs did not provide needed health services as requested by Congress. Many of the programs were affected by the following: (1) required professional assessments of applicants' nutritional status were not being made in some locations; (2) States used different criteria for judging whether applicants were nutritional risks and eligible for the program and supplemental food packages seldom were tailored to participants' individual nutritional needs; (3) nutrition education and program evaluation have not received the priority and attention they deserve; and (4) program regulations contain provisions hindering effective evaluations.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should revise authorizing WIC legislation to clearly require that participants receive needed health services where such services are available, accessible, and acceptable, with possible exceptions based on participants' religious beliefs.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress should address the problem of whether benefits of the food supplement part of WIC alone warrant its expansion to areas where needed health services cannot be delivered.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATION: Congress should monitor the Department of Agriculture's actions on the GAO recommendation that Agriculture work with the States and local agencies and with the Department of Health, Education, and Welfare to provide needed services in those present and planned program areas where adequate health services are not available, accessible, and acceptable.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should ensure that all States, especially Illinois and Washington, are properly interpreting Federal program regulations as requiring that needed health services, including prenatal and pediatric care, be made available to WIC participants.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should require that the Department evaluate and report on State monitoring of the content and overall effectivenesss of nutritional education given to participants at the local level.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should arrange for Agriculture and HEW to jointly determine whether sufficient acceptable health services will be available for an expanded WIC program to operate as an adjunct to good health care. If problems appear likely in this regard, the executive branch should consult Congress and, within the framework of the Government's overall budget policy, consider various alternative solutions geared to maximizing the effectiveness of available health resources.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should preclude disincentives to food package tailoring by specifically prohibiting States from considering food costs in distributing administrative funds to local agencies.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should require that nutritional risk assessments be made at specified intervals by competent professionals in accordance with established uniform criteria, and that the results of all such assessments, including assessments by outside providers, be made available to clinic staff for program purposes.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct that research be started to obtain the needed information to enable Agriculture to effectively implement the legislative provision in the newly enacted Child Nutrition Amendments.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should make certain that the Department's regional offices and its internal audit staff systematically evaluate and report on State management controls over (1) the nature, extent, and frequency of the nutritional risk assessments of program participants, and (2) the basis for, and extent of, food package prescriptions made to enable individual participant's nutritional/health needs to be met.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should work with HEW and recognized professional groups, such as the American College of Obstetricians and Gynecologists and the American Academy of Pediatrics to develop uniform standards and criteria for determining what constitutes bonafide nutritional/health risks for the different classes of WIC program participants (women, infants, and children). Such criteria should be uniformly applied across the board to ensure equitable and consistent treatment of the program's target population.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The agency will not agree to act on this recommendation. It says that there is no need for, or benefit to be gained from, the development and use of uniform standards and criteria.

RECOMMENDATIONS: The Secretary of Agriculture should require that individual food packages be prescribed to provide the kinds and quantities of foods needed to meet the specific nutritional needs of each recipient. Such prescriptions should be based on systematic feedback from nutritional risk assessments make by competent professionals and should specifically provide that greater or lesser amounts of food than contained in the current standard package be authorized and prescribed in accordance with case-by-case professional determinations of need.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should require that States and other authorized grantees take more effective measures to ensure that health services will be available to all potential participants in WIC before approving new local programs or major program expansions. Such measures should include a requirement that specified documentation from sponsor applicants show detailed information about public and private health service capacity in the target area, including firm agreements with private doctors and other health providers that would assure needed care for low income WIC participants.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should provide more specific guidance and direction to the States, and through the States to the local programs, as to how to structure and implement an effective nutrition education program for WIC participants. Part of this effort should entail designating a Service headquarters official responsible for the nutrition education component of the WIC program. It also should involve close coordination with HEW to develop and implement an appropriate nutrition education policy and to prepare, distribute, and update related teaching materials for the WIC program.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should, to ensure that future legitimate program evaluators have access to needed information on participants' health status, direct the Food and Nutrition Service to revise its regulations to give Agriculture and GAO personnel access to participants' medical information, but require that these personnel protect the privacy of the participants.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The agency will not act on this recommendation. It takes the view that confidentiality of participant medical information must be preserved.

RECOMMENDATIONS: The Secretary of Agriculture should make certain that Department reviewers keep close watch on State efforts to arrange for appropriate health services for WIC program participants and to ensure that such services are actually available to participants as needed.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should, where adequate health services are not available, accessible, and acceptable in present and planned WIC program areas, direct that the Department work with the States and local public and private agencies, and with HEW, to provide the needed services.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should drop from program regulations the proposed provision that participants not be denied supplemental food for failure to attend or participate in nutrition education activities. In light of the need for local WIC programs to fully integrate nutrition education into WIC program regulations, such restrictions on methods by which this can be effectively accomplished would be counterproductive and at odds with program goals.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The agency will not act on this recommendation. It believes that WIC participants should be encouraged, but not required, to receive nutrition education.

ASSOCIATE DIRECTOR: Sargol, Stanley S.
PHONE NUMBER: (202)447-7883

TITLE: Federal Export Grain Inspection and Weighing Programs: Improvements Can Make Them More Effective and Less Costly
RPTNO: CED-80-15 DOCUMENT DATE: 11/30/79

ORGANIZATION CONCERNED:
Federal Grain Inspection Service
Foreign Agricultural Service
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
352.0/Agriculture: Agricultural Research and Services

LAW AUTHORITY:
Agricultural Marketing Act
Grain Standards Act
7 U.S.C. 71-87(h)

BACKGROUND:

An evaluation was made of the official inspection and weighing systems for U.S. grain being exported to foreign buyers as they are implemented at U.S. export locations. The systems are required by the Grain Standards Act of 1976 and are administered by the Federal Grain Inspection Service (FGIS).

FINDINGS:

Foreign buyers perceived some improvements in the quality and weights of U.S. grain shipments since the Act was passed. However, further improvements in the inspection and weighing programs are needed. The factors causing quality problems included: (1) a lack of standardization in the proportions of grain tested and the allowable amount of infestation; (2) a lack of procedures to assure that all grain in a shipment was within grade requirements; (3) actual amounts of dockage in excess of the certified amount due to rounding procedures; and (4) grain standards that are too lenient. While the Act requires that all grain transferred into and out of an export elevator be officially weighed, grain companies oppose paying for the high cost of inbound weight supervision, particularly when the elevator already owns the arriving grain. However, GAO felt that weight supervision for the smaller truck and rail shipments could be reduced, with reasonable control over the accuracy of the weights being maintained. Many instances were noted where personnel were not performing their duties properly, and many deficiencies in the program can be attributed to the lack of proper training. The Department of Agriculture's formal complaint system is inadequate and a program which would provide systematic feedback of destination quality and weight data is needed for improved monitoring of shipments.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should amend the Grain Standards Act to provide the FGIS Administrator with the authority to reduce the amount of weight monitoring required on truck and rail shipments arriving at export elevators. This could be accomplished by amending section 5(a)(2) of the United States Grain Standards Act (7 U.S.C. 77(a)(2)) to read as follows: ``except as the Administrator may provide in emergency or other circumstances which would not impair the objectives of this Act, all other grain transferred out of and all grain transferred other than from a truck or railcar into an export elevator at an export port location shall be officially weighed in accordance with such standards or procedures; where grain is delivered to an export elevator at an export location by truck or railcar, the Administrator shall provide for supervision of weighing as defined in section 3(y) of this Act; and ...''

STATUS: Action completed.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to establish procedures to standardize the proportion of grain tested for infestation and require that all grain in which insects are found either be certified as infested or fumigated before shipment.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to revise shiploading instructions to prohibit the loading of offgrade grain as part of a shipment destined for multiple buyers.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to revise instructions to prohibit combining grain samples from multiple belts to determine sublot quality unless the grain represented by the samples is mixed properly during loading.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The agency study concluded that it would not be economically practical to adopt this recommendation.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to develop dockage certification instructions which assure uniform shipment quality and revise the grain standards to require that dockage grading results be certified to the nearest one-tenth percent.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to modify the grain inspection monitoring system to define and maintain an adequate level of inspector monitoring and develop monitoring system products which better meet the needs of field office officials responsible for identifying and correcting grading problems.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to require that inspection certificates issued in Canada be annotated, similar to those in the United States, when samples are obtained by means other than a diverter-type sampler.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to develop and implement detailed procedures and instructions for: (1) those weight monitoring activities not covered adequately by current FGIS instructions; and (2) supervising the weight monitoring activities performed by FGIS personnel and delegated State agencies at export locations.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to require that personnel be adequately trained before they are assigned weight monitoring duties and that they clearly understand what they are supposed to do and how they are to do it.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the

Administrator, FGIS, to strengthen the program for developing supervisors and emphasize to them their responsibility to ensure that weight monitoring activities are properly carried out.

STATUS: Action completed.

RECOMMENDATIONS: If Congress amends the Grain Standards Act as recommended, the Secretary of Agriculture should direct the Administrator, FGIS, to revise the inbound weight monitoring program at export locations to make it more cost effective by: (1) reducing the level of weight monitoring to a minimum of 25 percent on truck and rail shipments, particularly where closed-circuit television or other monitoring devices can be used to observe conveyance unloading and scale operations; and (2) possibly substituting observations by truck drivers for those of weight monitoring personnel where such actions are possible.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to use scientific work measurement techniques to determine staffing and skill levels required to perform essential inspection and weighing tasks and duties at export elevators and staff each elevator at the most efficient and effective level required to get the job done.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should direct FGIS to revise its inspection procedures to require that protein content be computed and reported on a standard moisture basis.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to exercise greater care in determining equipment requirements before large purchases are made, particularly when new technology is involved.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct FGIS to research the need for restricting certain blending practices, such as adding grain screenings or different types of grains to good quality grain, blending wheat with known sprout damage with wheat that does not contain such damage, or blending high- and low-moisture corn.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

After studying these proposed changes, the agency decided not to implement them.

RECOMMENDATIONS: The Secretary of Agriculture should direct FGIS and the Foreign Agricultural Service to develop a program for contacting major end-users on a regular basis to obtain their views as to the quality of U.S. grain and which quality factors are of greatest use to them for consideration in making future revisions to grain standards.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to develop equipment performance standards for closed-circuit television systems and such other criteria as would be needed to make a commitment on the number of official personnel that would be replaced if an elevator operator installs a closed-circuit television system meeting the specified equipment performance standards.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to revise the inventory monitoring program by discontinuing the maintenance of an independent set of elevator inventory records by FGIS personnel, requiring export elevators to maintain those records and data which FGIS needs, and developing and maintaining a capability within the headquarters staff to check the elevators' records and inventories when a problem is suspected.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator, FGIS, to continue efforts to revise U.S. grain standards to better meet end-user requirements. The Administrator should consider: (1)

reducing the maximum limitations of foreign material in soybeans and moisture in corn; (2) treating sprout damage either as a separate grading factor, as a subfactor similar to heat damage, or as a special quality determination item similar to protein content; and (3) adding a program for official testing of wheat for quality (gluten strength).

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

After studying the proposed changes, the agency decided not to implement them.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Foreign Agricultural Service and FGIS to use existing export monitoring programs to monitor the efforts of the U.S. grain trade to improve the quality of exports of grain and grain products, primarily soybean meal, flour, and rice, not covered by the Grain Standards Act. If problems sufficient to affect U.S. foreign markets are found, FGIS should develop: (1) a voluntary inspection program for grain products and inform foreign buyers that such a service is available on request; or (2) a legislative proposal to make rice export shipments subject to the inspection and weighing requirements of the Grain Standards Act.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct FGIS to give priority attention to further developing the system for collecting and analyzing quality and weight data obtained from foreign buyers. For the system to be effective, the data should be submitted on a regular schedule and all submissions should include comparable information. FGIS should also work with the cooperating foreign buyers to improve the buyers' sampling techniques and grain analyses capabilities so that FGIS can place greater reliance on the data submitted.

STATUS: Action completed.

AGENCY COMMENTS:

The agency has either completed action or is in the process of taking action on most of the recommendations. After further study, the agency decided not to implement several recommendations. The agency has not initiated action on one recommendation, but has not definitely ruled out taking action on it in the future. An accomplishment report was approved on September 30, 1981, covering the significant completed agency actions.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: [State Advance Payments to Aid to Families With Dependent Children Recipients Are Inconsistent With Federal Regulations]
RPTNO: HRD-80-50 DOCUMENT DATE: 02/07/80

ORGANIZATION CONCERNED:
Department of Health, Education, and Welfare
Massachusetts
New York
New York, NY
Social Security Administration: Office of Family Assistance
Social Security Administration

PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:
45 C.F.R. 233.20(a)(2)(i)
45 C.F.R. 233.20(b)(1)
45 C.F.R. 233.20(a)(3)

BACKGROUND:

The Aid to Families with Dependent Children (AFDC) program was examined regarding program policies, management characteristics, and operational procedures in six States and several of their local welfare agencies to identify areas in need of further audit or analysis. One of the issues concerning assistance payments was identified as warranting immediate attention. Pursuant to payment policies believed to be inconsistent with Federal regulations, the States of New York and Massachusetts are making advance payments to AFDC recipients and are obtaining 50 percent Federal participation. During 1978 these payments amounted to about $6 million in New York and about $33.6 million in Massachusetts. Of this, an undeterminable amount of the $6 million and about $1.4 million of the $33.6 million are overpayments, which may not be recouped. Federal regulations require that a State plan must specify a statewide standard, expressed in dollar amounts, to be used in determining the (1) need of applicants and recipients, and (2) amount of the assistance payment. The most recent data available indicated that 22 States, including New York and Massachusetts, provided payments that along with any recipient income, equal 100 percent of the need standard for all recipients. Federal participation in the assistance payment is available on the basis that any recipient income plus the monthly payment does not exceed the need standard. The regulations further provide for Federal participation in the monthly AFDC grant only if the recipient was eligible on the date aid was paid.

FINDINGS:

The New York policy authorizes advance payment of AFDC funds upon request to recipients facing eviction or utility shutoffs for overdue payments. Essentially, these advance payments are loans, because they are in addition to the regular monthly grants. It is believed that this policy is inconsistent with Federal regulations because the additional moneys are: (1) more than the need standard in the approved State plan and are for expenses covered by prior months' grants, and (2) based on the assumption that a recipient will be eligible in the future. This policy does not limit the size, number, or total amount of advances a recipient can obtain and have outstanding. Although these advance payments are subject to repayment from future grants, if a case with an outstanding advance is discontinued from assistance, the advance payment is often not recouped. This results in abuse of the system and little incentive for recipients to budget regular assistance payments. The Massachusetts policy provides AFDC recipients with a portion of their assistance payment in advance quarterly payments. This, too, appears to be inconsistent with regulations because it presumes continued eligibility for a 3-month period. If an applicant becomes eligible during a quarter, he receives a prorated advance based upon the number of semi-monthly pay periods remaining in the quarter. If a recipient becomes ineligible at any time during the quarter, the State does not require repayment. GAO believes these payments should not be federally reimbursed.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Health, Education, and Welfare (HEW) should disallow claims for Federal participation in advance payments and initiate appropriate efforts to recover the Federal share of any outstanding advance payments.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of HEW should revoke the prior approval of the quarterly advance payment policy and limit Federal participation to payments for those months in each quarter that each recipient was eligible.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HEW should require the Social Security Administration to review all State AFDC plans and regulations to see whether their payment policies are consistent with the Code of Federal Regulations.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HEW should require the Social Security Administration to establish a mechanism within the Administration to make sure that changes are made to those State plans with payment policies that are not consistent with the Code of Federal Regulations.

STATUS: Action completed.

AGENCY COMMENTS:

SSA met with the States to resolve issues on their respective advance payment policies to AFDC recipients for utility shut-offs and other special needs. Massachusetts amended its advance payment policy to be consistent with Federal regulations which became effective September 16, 1980. All of the required information is included in the amendment; no further action is required. New York was cited as out of compliance with Federal policy for its approved plan for recouping advance payments for special needs.

ASSOCIATE DIRECTOR: McGough, Peter J.
PHONE NUMBER: (301)987-3138

TITLE: Shall Full Funding Be Applied to the Rental Assistance and Family Planning Programs?
RPTNO: PAD-80-16 DOCUMENT DATE: 02/12/80

ORGANIZATION CONCERNED:
Farmers Home Administration
Department of Health, Education, and Welfare
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
371.0/Commerce and Housing Credit: Mortgage Credit and Thrift Insurance

LAW AUTHORITY:
Housing Act of 1949

BACKGROUND:

A Federal program is considered to be a fully funded program if the budget authority requested and made available is for the total cost of that program to be initiated in the budget year. Full funding has been traditionally associated with major procurement and construction activities. However, GAO believes it has potential for application to subsidy and social programs and some research and development. At the request of the House Budget Process Task Force, GAO did a review of further implementation of full funding which included case studies of two programs with full funding potential.

FINDINGS:

The main problem with the current method of funding the Farmers Home Administration's Rental Assistance Program was inadequate disclosure of funding requirements. The requirement to make appropriations in the future for commitments entered in the past was not clear in the budget information presented to Congress. Because of this, Congress had little control over future appropriations of budget authority. Full funding would improve disclosure of the program's total funding requirements and increase the Congress' control over appropriations of budget authority by allowing the Congress to act on the full program level and cost at a time when it has some discretion to make changes, rather than on a piecemeal basis. Congress would see the total funding requirement before the commitment was made and would not have to provide future budget authority for the same budget year program. The disadvantages of full funding included a possible increase of unobligated balances which would have to be monitored. GAO felt that the disadvantages would be minimal. Full funding the Family Planning Program would affect Congress in several ways. However, the effect would be minimal on disclosure of total costs and future control of spending, the two usual advantages of full funding. In addition, some of the current annual program control by Congress would be lost. Therefore, GAO did not believe that Family Planning was a prime candidate for full funding.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should draft legislation to establish a fully funded separate general fund appropriation account to fund the Rental Assistance Program.

STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

The agency has not, as yet, taken any action.

ASSOCIATE DIRECTOR: Hunter, Kenneth W.
PHONE NUMBER: (202)275-4649

TITLE: Rural Electrification Administration Loans to Electric Distribution Systems: Policy Changes Needed
RPTNO: CED-80-52 DOCUMENT DATE: 05/30/80

ORGANIZATION CONCERNED:
Department of Agriculture
Rural Electrification Administration
PRIMARY BUDGET FUNCTION(S):
452.0/Community and Regional Development: Area and Regional Development
LAW AUTHORITY:
Rural Electrification Act of 1936
7 U.S.C. 901-902
Emergency Relief Appropriation Act of 1935
49 Stat. 115
P.L. 93-32
87 Stat. 65
Executive Order 7037
S. Res. 21 (86th Cong.)
REA Bull. 2-1

BACKGROUND:

Rural Electrification Administration (REA) loans and other assistance have played a major role in bringing electric service to rural America since 1935. Although some electric distribution systems continue to need loan subsidies, others could qualify for and obtain long-term credit from other sources at reasonable rates and terms and still have comparable costs and charge comparable electric rates. Changes are needed in REA loan policies and procedures to identify these borrowers and to better match loan subsidies with individual borrower needs.

FINDINGS:

Under its policies and procedures, REA has made limited progress in encouraging systems to become financially self-sufficient. About 42 percent of the borrowers GAO reviewed could probably qualify for non-REA loans at reasonable rates and terms. Some of these have high costs which would be passed on through charging relatively high electric rates. However, others have low costs and could absorb increased interest costs without increasing electric rates. REA loan-making criteria do not adequately correlate the type and/or amount of subsidized loan REA will provide with the borrower's needs. Thus, borrowers with high costs can receive the same subsidy or even less than those with low costs. The REA administrator advised GAO that using rate comparability criteria for determining need for assistance would be difficult because of such matters as differences in geographic energy use and supply and in State rate-setting agencies. Recognizing these difficulties, GAO concluded that, since the most important factor in establishing electric rates is borrowers' costs, cost comparability should be used as a substitute for rate comparability.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator of REA to develop a legislative plan for revising the policies for making insured loans to rural electric distribution systems. As a part of the plan, new criteria should be developed, based on cost comparisons with urban electric systems, for determining the subsidized loans needed, if any, by the systems to help enable them to charge comparable electric rates. The criteria should be applied on a 2-year cycle to all borrowers requesting loans. Borrowers that can qualify for non-REA loans at reasonable rates and terms, and are not in need of a subsidized loan to charge comparable electric rates, should be ineligible for REA assistance.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator of REA to develop criteria for determining which rural electric distribution system borrowers qualify for long-term loans from the private credit sector at reasonable rates and terms.

STATUS: No action initiated: Date action planned not known.

ASSOCIATE DIRECTOR: Dodge, Lowell
PHONE NUMBER: (202)275-5091

TITLE: Need for More Effective Regulation of Direct Additives to Food
RPTNO: HRD-80-90 DOCUMENT DATE: 08/14/80
ORGANIZATION CONCERNED:
Department of Agriculture
Food and Drug Administration
Department of Health and Human Services
PRIMARY BUDGET FUNCTION(S):
554.0/Health: Consumer and Occupational Health and Safety
LAW AUTHORITY:
Food, Drug and Cosmetic Act
21 U.S.C. 301 et seq.
Meat Inspection Act
21 U.S.C. 601 et seq.
Poultry Products Inspection Act
21 U.S.C. 451 et seq.
Saccharin Study and Labeling Act
P.L. 95-203
Food Additives Amendment of 1958
21 U.S.C. 321(s)
21 U.S.C. 342(a)(2)(c)
21 U.S.C. 348
21 C.F.R. 170.6
21 C.F.R. 170.35

BACKGROUND:

The Food, Drug and Cosmetic Act requires that the safety of direct food additives be based on scientific evidence and that the evidence be reviewed and approved by the Food and Drug Administration (FDA). However, the Act exempts from review and approval substances generally recognized as safe (GRAS) by experts or approved for use before 1958, and allows the safety determination for some of those substances to be based on experience drawn from common use in food. The safety of several of these exempted substances has been questioned. A review was undertaken to determine whether current legislative authority and FDA regulatory practices adequately protect the public against hazards from substances directly added to food. GAO examined provisions of the Act which exempt about 1,450 substances from food additive regulation by FDA; reviewed several exempted substances the assumed safety of which was later questioned, and the removal from use of which has been proposed or completed; and evaluated the potential impact these exemptions could have on the level of evidence supporting the safety of the substances.

FINDINGS:

The FDA administrative regulations do not clearly define the scientific evidence needed to support the safety of a food additive or explain how it conducts safety assessments. The regulations do not distinguish among the different kinds of evidence which support each substance's safety affirmation. Experience from common use in food has questionable value in assuring that an additive is safe, because individuals are exposed to numerous substances, including environmental contaminants, over a long period. Adverse effects from exposure to harmful substances may not occur for many years. Since FDA is not required to review and approve GRAS substances, there is no assurance that consistent criteria are applied in determining the safety of all such substances. Of the 39 petitions received in 1979 for GRAS designations of substances used after 1958, review of 18 has been completed. Four of the 18 contained sufficient scientific evidence to support a GRAS affirmation. During 1978, FDA received 14 petitions requesting that food additives be approved. As of October 1979, regulations had not been approved or published for any of these substances. In seven petitions reviewed, FDA had determined that the scientific evidence supporting the substance's safety was inadequate and had requested addition evidence. In five cases, data not specifically identified in the regulations were requested. Developmental efforts are currently underway to publish definitive scientific testing guidelines and review criteria for determining the safety of food additives

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should amend the Federal Food, Drug and Cosmetic Act to eliminate exemptions for GRAS and prior sanction substances. Changes to the law should provide for sufficient flexibility to encourage the use of information already available and to recognize that different types of scientific evidence may be appropriate to support the safety of food additives. The amendment should also provide a date on which the safety of all GRAS and prior sanction substances must be subject to Federal review and approval.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Health and Human Services should direct the FDA Commissioner to publish regulations establishing review criteria for assessing the safety of food additives and issue guidance defining the methods and controls to be used in conducting scientific safety tests.

STATUS: Action in process. Intended completion date: 06/83

RECOMMENDATIONS: The Secretary of Health and Human Services should direct the FDA Commissioner to revise regulations which list substances that FDA has affirmed as GRAS to indicate the kinds of evidence that support their safety.

STATUS: Action in process. Intended completion date: 06/83

GENCY COMMENTS:

HHS agreed that the regulations of GRAS and other prior sanctioned substances is an important issue and developed ways to deal with the subject but did not agree it would be in the public interest to include a mandated timeframe for implementing congressionally acted revisions. FDA submitted recommendations to HHS for the development of an executive branch position on proposed food safety legislation (S. 1442 and H.R. 4014). These recommendations were considered by the Cabinet Council on Human Resources. On October 15, 1982, FDA also issued for comment a document entitled ``Toxicological Principles for the Safety Assessment of Direct Food Additives and Color Additives Used in Food.'' The document identifies FDA scientific framework for developing safety information on new and already approved additives. The closing date for comments is January 13, 1983.

ASSOCIATE DIRECTOR: Curtis, Franklin A.
PHONE NUMBER: (202)275-5451

TITLE: Actions Needed To Increase Federal Onshore Oil and Gas Exploration and Development

RPTNO: EMD-81-40 DOCUMENT DATE: 02/11/81

ORGANIZATION CONCERNED:
- Department of Energy
- Department of the Interior
- Department of Agriculture
- Department of Defense
- Bureau of Land Management
- Geological Survey
- Forest Service
- United States Fish and Wildlife Service

PRIMARY BUDGET FUNCTION(S):
- 271.0/Energy: Energy Supply

LAW AUTHORITY:
- Mineral Lands Leasing Act
  - 30 U.S.C. 181 et seq.
  - 30 U.S.C. 351 et seq.
- Federal Coal Leasing Amendments Act of 1975
  - 90 Stat. 1083
- Wilderness Act
  - 16 U.S.C. 1131 et seq.
- Wild and Scenic Rivers Act
  - 16 U.S.C. 1280

Department of Energy Organization Act
42 U.S.C. 7101
Engle Act (Minerals)
Land Policy and Management Act
Environmental Policy Act of 1969

BACKGROUND:

The use of Federal lands for fossil fuels exploration has become an important issue. Managing these lands involves difficult trade-offs between the often-conflicting issues of development, conservation, and environmental protection. An examination was performed on how the exploration and development of oil and gas from Federal lands could be accelerated.

FINDINGS:

GAO found that the use of Federal lands for fossil fuels exploration and development is hampered by: (1) the unavailability for leasing of prospectively valuable Federal oil and gas lands; (2) the imposition of stipulations on leases which restrict exploration and development; and (3) lengthy delays in the approval of Federal leases and drilling permits. GAO has determined that the first two of these issues are more significant due to the indefinite duration of actions which have closed lands, the severity of stipulations on leases, the large acreages involved, and their substantial oil and gas potential.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should determine whether it wishes to be excluded from the review and possible disapproval of decisions to close lands to mineral leasing. If not, Congress should amend section 202(e) of the Federal Land Policy and Management Act to provide that the management decisions closing lands to mineral leasing and affecting smaller sized tracts should be reported to Congress. Section 202(e) should be further amended to require that the Department of the Interior submit with each report to Congress the minerals report described in section 204(c)(2) for withdrawals and any other information required in section 204(c)(2) which the Congress considers appropriate. Congress should also amend section 3 of the Engle Act so that the withdrawal information for military applications conforms with the Land Policy and Management Act's section 204(c)(2) requirements for mineral analyses.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretaries of Agriculture and the Interior should direct the Forest Service and the Bureau of Land Management, respectively, to establish standards and criteria for the use of restrictive stipulations, such as surface disturbance and ``no surface occupancy'' restrictions. Leasable lands should then be inventoried to determine the extent of the use of such stipulations and to verify if the stipulation use meets the standards and criteria. Stipulation uses which are determined to be unjustified should be removed.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of the Interior should direct the Bureau of Land Management to: (1) change its guidelines implementing the Environmental Policy Act of 1969 to defer the requirement for environmental assessments for oil and gas activities until surface disturbance is proposed; (2) establish standard time frames for completion of lease processing; (3) work with surface management agencies to develop cooperative agreements and goals for lease processing; and (4) develop a standard followup system for tracking outstanding lease applications. The Secretary should direct the Geological Survey to: (1) clearly state in its guidelines what the operator is required to submit; (2) review drilling permit applications and notify an applicant within 7 days of the filing date if his application is incomplete; (3) develop standard procedures for tracking and recording actions; and (4) coordinate with operators so that they have an archaeologist available during joint-site inspections.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Defense should formulate a minerals

policy, consistent with current national energy needs and evaluations of oil and gas potential on affected lands, that will provide guidance to the military services in making installations available to leasing.
STATUS: Action completed.
RECOMMENDATIONS: The Secretary of the Interior should: (1) establish criteria upon which ``no leasing'' decisions must be based and also require the Bureau of Land Management to maintain records of ``no leasing'' decisions adequate enough to permit periodic congressional oversight; (2) require the Bureau to inventory lands which have been closed by management decision to oil and gas leasing, and then retain closure only to the extent it can demonstrate that a continuation of the decision not to lease is based on the criteria defined above; (3) direct the Bureau to give priority to evaluating the pre-Environmental Policy Act of 1969 Defense withdrawals under the Bureau's withdrawal review program; (4) direct the Geological Survey to review the oil and gas potential of the Fish and Wildlife Service's refuges in the lower 48 States; (5) direct the Bureau to develop a withdrawal review program to include the remaining 38 States; and (6) direct the Bureau to inventory and justify lands withheld from the simultaneous leasing system.
STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

Interior, DOD and USDA strongly support most of the recommendations contained in the final report. Interior has made several changes in expediting the processing of Federal leases and drilling permits, reducing the number and severity of lease restrictions, and opening more oil and gas lands to leasing. DOD has implemented leasing guidelines for military installations. USDA has developed a memorandum of understanding with Interior to help expedite the processing of leases.

ASSOCIATE DIRECTOR: Sprague, John W.
PHONE NUMBER: (202)275-3572

TITLE: Farmer-Owned Grain Reserve Program Needs Modification To Improve Effectiveness
RPTNO: CED-81-70 DOCUMENT DATE: 06/26/81
ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Stabilization and Conservation Service
Commodity Credit Corp.
PRIMARY BUDGET FUNCTION(S):
350.0/Agriculture
LAW AUTHORITY:
Food and Agriculture Act of 1977
P.L. 95-113
91 Stat. 913
Food, Drug and Cosmetic Act
21 U.S.C. 301 et seq.
Grain Standards Act
7 U.S.C. 71 et seq.

BACKGROUND:

The farmer-owned grain reserve, authorized by the Food and Agriculture Act of 1977, is to encourage producers to store wheat and feed grains when they are in abundant supply and extend the time for their orderly marketing.

FINDINGS:

GAO and its consultants found that, during its first 2 to 3 years, the farmer-owned reserve (FOR) only partially met its objectives of increasing grain inventories in times of abundant supply, removing the Government from the role of grain storer and reducing price variability. Some reserve grain is of questionable quality, and storage payments have exceeded storage costs. As of March 18, 1981, the reserve contained about 1.22 billion bushels of wheat, corn, and other grains. The value of outstanding loans on these reserve grains was about $2.9 billion. The reserve grain cannot be sold without penalty until predetermined market price levels are reached.

At release, producers may, but do not have to, remove the grain from the reserve. At call, producers must repay their loans or forfeit the grain. Most reserve grain would have been held in private stocks without the reserve. Although the reserve initially succeeded in ensuring producer ownership of reserve stocks, the Government now holds grain purchased in reaction to the Russian grain embargo. Program modifications are needed to improve the program's effectiveness. Producers had been allowed to retain unearned storage payments for an unreasonable period of time when the redemption period was extended. Program regulations have been amended to provide that interest be charged immediately following the maturity date or the originally required settlement date.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should evaluate the effectiveness of the farmer-owned reserve to serve as a basis for Congress to use in making future grain policy decisions.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should study the feasibility of other farmer-owned reserve program modifications and, if they provide remedies to the problems that were found, incorporate them into the program.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should require the Agricultural Stabilization and Conservation Service to obtain official grade determinations, on a sample basis, as grain enters the farmer-owned reserve and on the same grain each subsequent year (where possible), to develop a profile of FOR grain and determine what characteristics are predictors of storability.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should require the to improve its guidelines and the Agricultural Stabilization and Conservation Service procedures for identifying grain with quality problems serving as loan collateral and correcting or eliminating quality problems identified.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should amend program regulations to make them consistent with Agricultural Stabilization and Conservation Service procedures which provide that storage earnings stop in all cases when a grain reaches call status.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should determine the average cost of FOR grain storage and limit producer storage payments to this amount. In determining the average cost of FOR grain storage, both on farm and warehouse storage costs should be considered.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The law was changed in 1981; Agriculture is no longer required to set storage payments based on the average cost to store the commodities.

RECOMMENDATIONS: The Secretary of Agriculture should provide for methodical program adjustments in response to a broad range of potential market and political developments to allow decisionmakers in grain and related industries to anticipate such changes and adjustments, while still allowing for some flexibility.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

Agriculture generally agreed with the GAO conclusions and said that it was reviewing all aspects of the farmer-owned reserve. It stated that it would work with Congress to provide a workable and cost-effective program.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: More Can Be Done To Improve the Department of Agriculture's Commodity Donation Program
RPTNO: CED-81-83 DOCUMENT DATE: 07/09/81

ORGANIZATION CONCERNED:
Department of Agriculture
Food and Nutrition Service
Food Safety and Quality Service
Agricultural Stabilization and Conservation Service
Agricultural Marketing Service

PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:
Agricultural Adjustment Act
Agricultural Act of 1949
7 U.S.C. 1431
School Lunch Act
42 U.S.C. 1755
7 C.F.R. 210
7 C.F.R. 250.2
7 C.F.R. 250.4(h)
P.L. 95-166
P.L. 96-528
Food and Nutrition Service Handbook 501
7 U.S.C. 612c
42 U.S.C. 1762a

BACKGROUND:

In fiscal year 1980, State and local programs to feed students, the elderly, needy families, and others received over $900 million worth of food through the Department of Agriculture's (USDA) commodity donation program. About 90 percent of the donated food was for the school lunch program administered by the Food and Nutrition Service (FNS). Two other USDA agencies provide the commodities.

FINDINGS:

USDA has not fully and accurately determined users' commodity needs, and States order commodities without determining user needs or preferences. GAO recognizes the difficulty of balancing the program objective of purchasing commodities for surplus removal and price support with the objective of purchasing commodities that user agencies prefer and need. However, GAO believes that improvements can be made. At times, commodities are received too late for use or without advance notice. Occasionally, recipients have to purchase food items locally which they would normally receive through the program. USDA allows States to restrict the mode of transportation to truck or rail, which can result in excessive transportation charges. The Department should consider increased use of the free-on-board (FOB) destination basis for procurement. It has been suggested that the commodity donation program be replaced with a cash or letter-of-credit voucher system. This would allow recipient agencies to purchase desired food items locally using cash or credit vouchers provided by the Department. Opponents fear a possible increase in opportunities for fraud and abuse, an increase in program costs, and a lessening of market surplus response capability. GAO believes that testing should provide Congress with needed data on the pros and cons of the alternative systems.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should evaluate the potential and actual effects of the USDA section 32 commodity purchases on the market prices and quantities available.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should establish specific procedures and a required reporting format to ensure that school districts' views on commodity preferences and needs are fully, accurately, and uniformly reflected in reports sent to State educational agencies by the State food distribution advisory councils.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should specifically show in the annual purchase plan how user needs and preferences affect the amount of funds that may be spent on commodity purchases. Analyses should be included showing the weights given such factors as commodity availability, market prices, and fund availability.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should require State distributing agencies to order commodities for recipient agencies based on demonstrated use and need rather than judgment and personal opinion.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should revise appropriate program regulations to require the Food and Nutrition Service to develop a formal monitoring system setting forth data to be maintained by State distributing and recipient agencies, how the data should be analyzed, and who is responsible for the analyses.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The agency has revised its monitoring handbook to provide better guidance on proper monitoring of recipient agencies, inventory levels, and processes. Because of this change, program regulations do not need to be revised.

RECOMMENDATIONS: The Secretary of Agriculture should require that all recipient agencies maintain perpetual book inventories; take periodic physical inventories and submit the results to the State along with copies of the source documents used; explain any differences between physical inventory counts and perpetual inventory balances; and develop and report monthly to State distributing agencies data showing, at a minimum, (1) beginning inventory, (2) commodities received during the month, (3) commodities used during the month, (4) ending inventory, and (5) the value of commodities used per meal prepared.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Food and Nutrition Service to develop a monitoring plan to be followed by State distributing agencies in monitoring commodity inventory levels at recipient agencies. The plan should require that, at a minimum, the State agencies: (1) analyze monthly inventory reports submitted by the recipient agencies to identify excess and/or low inventory levels, poor inventory controls, and ineffective use of commodities; (2) identify causes of the problems, recommend positive action to alleviate them, and follow up to determine that corrective action is taken; and (3) visit a specified number of recipient agencies each year to take a physical inventory and review inventory control procedures.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Food and Nutrition Service to fully evaluate commodity inventory levels at the State distributing agencies by developing a monitoring plan that: (1) requires States to continue to report commodity inventory levels as well as inventory levels in State-owned or -leased storage facilities, and to report inventory levels by program; (2) identifies the monitoring responsibilities of FNS headquarters and its regional offices; (3) specifies how those involved in monitoring should analyze the State inventory data and establishes reasonable timeframes for completing the analyses; and (4) specifies actions to be taken when FNS identifies problems with untimely, inaccurate, or incomplete reporting, excessive inventories, or lack of adequate inventory controls.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Food and Nutrition Service to require that States develop procedures for distributing commodities to recipient agencies based on reported needs rather than allocating commodities based on the number of meals served.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should (1) revise USDA procedures to require that shippers provide specific written documentation regarding their inability to supply needed transportation and dates when the vendor requested transportation; (2) emphasize to the Agricultural Stabilization and Conservation Service the need to completely review vendor appeal cases and to sufficiently document its actions; (3) monitor FNS regional office efforts in getting States to adopt greater flexibility in the way they take delivery on commodities and, if necessary, require States to annually update their delivery capabilities; and (4) monitor the FOB-destination procurement of fruits and vegetables for the needy family program and, where cost-justified, expand such procurement of fruits and vegetables to other programs receiving donated commodities.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

USDA is working with State agencies to ensure that, not only is reporting more formalized, but that an understanding is reached as to the importance of recordkeeping. It is developing a computerized inventory control system for use at the State agency level. The agency is working on the problems associated with monitoring FOB-destination procurement of fruits and vegetables for needy people and inventory problems. GAO will follow up to determine if the action was completed by the end of the next followup cycle.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Long-Range Planning Can Improve the Efficiency of Agricultural Research and Development
RPTNO: CED-81-141 DOCUMENT DATE: 07/24/81

ORGANIZATION CONCERNED:
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
352.0/Agriculture: Agricultural Research and Services

LAW AUTHORITY:
Agricultural Research, Extension, and Teaching Policy Act (National) Food and Agriculture Act of 1977
P.L. 95-113
P.L. 96-362
H.R. 2561 (97th Cong.)

BACKGROUND:

GAO reviewed the long-range planning for agricultural research and development which is being conducted by the Department of Agriculture, other affected agencies, and the States.

FINDINGS:

GAO found that the U.S. agricultural research and development system does not perform national long-range planning which would meet generally accepted definitions of such planning. The key participants in the system engage in long-range planning only to a very limited extent. No rationale for long-range planning has been developed, and past planning efforts have not resulted in long-range plans. Currently some planning, but not long-range planning, is occurring. Many of the parties in the agricultural research and development system support the concept of national long-range planning, but a number of factors inhibit such planning. The States and the Department of Agriculture work together, coordinate research, and exchange extensive amounts of information. These efforts are independently managed and planned. The challenge of potential food shortages in the future make long-range planning more and more essential. The long-range planning that does occur is done almost exclusively by Agriculture and focuses on inhouse research. Current planning efforts deal primarily with short-term or operational planning. The authority and management for individual research projects is split among Federal, State, local, and private authorities. This fact, frequent changes in departmental leadership, and limited executive interest and guidance make long-range planning extremely difficult. Current agricultural research is not directed or influenced by a long-range plan.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should develop an agencywide long-range plan for agriculture research and development.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

Agriculture agreed that long-range planning is one of the ways to maintain and improve agricultural research and development, and agreed to conduct a food and agriculture needs assessment as a first step. The assessment is being performed for Agriculture by the Joint Council on Food and Agriculture Services.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Continuation of the Resource Conservation and Development Program Raises Questions

RPTNO: CED-81-120 DOCUMENT DATE: 08/11/81

ORGANIZATION CONCERNED:
Department of Agriculture
Soil Conservation Service

PRIMARY BUDGET FUNCTION(S):
302.0/Natural Resources and Environment: Conservation and Land Management

LAW AUTHORITY:
Bankhead-Jones Act (Farm Tenant)
7 U.S.C. 1010
7 U.S.C. 1011
50 Stat. 525
Soil Conservation and Domestic Allotment Act
16 U.S.C. 590a et seq.
49 Stat. 163

BACKGROUND:

GAO reviewed the Department of Agriculture's Resource Conservation and Development (RC&D) program and the administrative and legislative changes needed to improve the control and operation of the program.

FINDINGS:

GAO was unable to develop a clear picture or measure of overall benefits under the program because program accomplishments are not clearly distinguishable at either the project or measure level. The principal problems involved lack of useful data, the intangible nature of some benefits, and varying or unknown degrees of project involvement. GAO was able to obtain cost information on the program overall and on each project but not on individual project measures. Pertinent technical assistance costs were not shown for individual measures. The omission of technical assistance costs in reporting completed measures seriously limited any attempt to evaluate the program's benefits in relation to its costs. Funds appropriated for cost sharing with local sponsors under the program have been used to finance many measures for which other Federal programs have been established. Once projects are authorized, they remain on the rolls indefinitely. Federally assisted sub-State planning organizations have the potential to become an alternative delivery system for activities carried out under the program because they perform many of the same functions. Some projects' area plans which specify goals, objectives, and measures to be undertaken have not been updated as required by program procedures.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively discontinue the use of program funds for installing project measures currently authorized for financing under cost sharing arrangements.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The Agriculture and Food Act of 1981 (P.L. 97-98) established an RC&D program and provided for the deauthorization of projects and for cooperative agreements with States and local units of government.

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively require the Secretary of Agriculture to establish procedures for periodically reviewing project operations and deauthorizing projects which are no longer active or have developed the capabilities necessary to continue operating without Federal involvement.

STATUS: Action completed.

RECOMMENDATION: If Congress decides to continue the RC&D program, it should legislatively direct the Secretary of Agriculture to establish several pilot projects where sub-State organizations would assume the functions of RC&D projects. Upon completion of such tests, the Secretary should be required to provide Congress an evaluation of the test results with such recommendations as may be indicated for transferring additional RC&D project functions to sub-State organizations or the reasons for retaining the functions within the existing RC&D program structure.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

The Agriculture and Food Act of 1981 (P.L. 97-98) established an RC&D program and provided for the deauthorization of projects and for cooperative agreements with States and local units of government.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should require the Soil Conservation Service to account for and identify the costs of providing technical assistance for each project measure.

STATUS: Action in process. Intended completion date: 01/84

RECOMMENDATIONS: The Secretary of Agriculture should require the Soil Conservation Service to improve its program information system to provide data which would permit better assessment of project benefits.

STATUS: Action in process. Intended completion date: 01/84

RECOMMENDATIONS: The Secretary of Agriculture should require the Soil Conservation Service to monitor the program more closely to assure that the projects' area plans are up to date and reflect any changed conditions in project circumstances.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should require the Soil Conservation Service to develop and incorporate an approved evaluation procedure into the program's management process.

STATUS: Action in process. Intended completion date: 01/84

AGENCY COMMENTS:

In a June 19, 1981, letter, USDA agreed with the recommendations and outlined actions it was taking or planned to take. However, in its November 16, 1981, letter to GAO, in response to the Legislative Reorganization Act, section 236, USDA said that the administration's budget policy for RC&D was to discontinue the program; the recommendations were not being considered at that time. On January 7, 1982, officials of the Soil Conservation Service, which administers the RC&D program, told GAO that it plans to issue regulations to implement the provisions of the Agriculture and Food Act of 1981 and make revisions to its RC&D Program Handbook in accord with the recommendations.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: [Speeding Up the Drug Review Process: Results Encouraging but Progress Slow]
RPTNO: HRD-82-16 DOCUMENT DATE: 11/23/81

ORGANIZATION CONCERNED:
Department of Health and Human Services
Food and Drug Administration

PRIMARY BUDGET FUNCTION(S):
552.0/Health: Health Research

LAW AUTHORITY:
Food, Drug and Cosmetic Act
21 U.S.C. 301

BACKGROUND:

GAO reviewed the Food and Drug Administration's (FDA) drug review process to determine the status and effectiveness of the FDA efforts to reduce the processing time of new drug applications. The review concentrated on three areas: (1) recent new drug application approval data to determine whether FDA was making progress in speeding up the process, (2) a number of recent FDA initiatives aimed at speeding up the drug review process to determine the status of their implementation, and (3) other suggestions that have been made to speed up the drug review process and to determine the extent to which they might be implemented by FDA. GAO compared the time required to approve new drug applications received by FDA during fiscal years 1976 and 1977 with the time required to approve those received in fiscal years 1979 and 1980.

FINDINGS:

FDA has made some progress in reducing processing time for new drug applications, particularly for important new drugs. The review showed that applications for approval of important new drugs received in fiscal years 1979 and 1980 were processed an average of 36 percent faster than similar applications received in fiscal years 1976 and 1977. However, progress among the six FDA reviewing divisions has not been consistent; four divisions have increased review time. FDA efforts to speed up the review of chemistry data by having firms submit this information for drugs classified as major or modest therapeutic advances before submitting the full new drug application can help expedite review, but firms rarely do this. Because FDA requirements for giving priority review to important new drug applications have not been communicated in writing, many reviewers have not understood the FDA priority and, therefore, treat some important drugs no differently from other drugs. Validation of the methods used by the sponsor to insure the quality, strength, purity, and identity of a drug continue to take much longer than the FDA 45-day goal despite FDA efforts to speed up the process. Additional efforts are needed to speed up the work of the Biometrics Division and the Biopharmaceutics Division. These divisions' data requirements are not being adequately communicated to new drug application sponsors. Finally, reviewers in some FDA divisions wait until they are well into their review before identifying the material to be reviewed by these divisions.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to revise the FDA system used in measuring FDA progress to provide for the types of comparisons identified in this report.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

FDA will continue to use the same system in effect today to monitor its progress in achieving its goals. According to FDA, a data base for making comparisons with past performance has been developed and such information is reported to the Office of the Secretary on a quarterly basis.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to develop an accurate computerized data base on which such a system would draw by correcting the errors in the existing computerized data base.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to notify all applicants individually when they have an important new drug that is a candidate for pre-new-drug application submission of manufacturing and controls data, but emphasize that they should presubmit these data only if they are complete and in final form.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to communicate in writing to all new drug application reviewers the FDA priority review requirements. Such requirements should emphasize the need to: (1) begin the review of important drugs ahead of others; (2) notify new drug application sponsors immediately after the chemist, pharmacologist, and medical officer have completed their respective reviews; and (3) request work from FDA support groups, such as validating laboratories, early in the review process.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to decide what FDA will require for methods validation, communicate these requirements to new drug application sponsors and all FDA review and laboratory chemists, and establish controls to see that these requirements are followed.

STATUS: Action in process. Intended completion date: 07/83

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to expedite the FDA review of the draft biopharmaceutical guidelines and make them available to new drug application sponsors as soon as this review is completed.

STATUS: Action in process. Intended completion date: 07/83

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to establish a guideline for requesting biopharmaceutical studies and see that biopharmaceutical requests are made in a timely fashion.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to make statistical guidelines available to all new drug application sponsors as soon as they are completed.

STATUS: Action in process. Intended completion date: 07/83

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to make sure that medical officers involve the Division of Biometrics statisticians early in the new drug application review process.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to prepare a report to the Chairman, Subcommittee on Natural Resources, Agriculture Research and Environment, House Committee on Science and Technology, detailing each change it has made or plans to make to speed up the drug approval process and estimating the amount of review time the change has saved or is expected to save.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of HHS should direct the FDA Commissioner to publish annually quantitative data showing approval rates for each type of drug, such as new molecular entities, new salts, and new formulations by each reviewing division, for use by program officials and Congress.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

FDA annually publishes a new drug evaluation briefing book which reports statistics on various aspects of the new drug approval process including numbers and approval times. FDA does not believe that reports on the small number of applications reviewed by individual divisions and comparisons among divisions would be either appropriate or meaningful.

AGENCY COMMENTS:

Several task forces were established by the FDA Commissioner, HHS Secretary, and Congress to examine and, where appropriate, recommend ways to improve the drug review process. Each group was charged with looking for and recommending ways by which policy, regulations, legislation, or management changes could improve the drug review process without lessening the FDA concern for safety and effectiveness of drugs. The task forces have completed their work, and on October 19, 1982, FDA published in the Federal Register a proposed revision to its regulations governing the approval for marketing of new drugs. According to FDA, these changes, if implemented, could reduce by about 6 months the time required to review new drug applications and reduce the annual cost associated with new drug applications by about $2.5 million. The proposed regulations address many of the concerns about the drug review process previously expressed by GAO and others.

ASSOCIATE DIRECTOR: Curtis, Franklin A.
PHONE NUMBER: (202)275-5451

TITLE: Better Collection and Maintenance Procedures Needed To Help Protect Agriculture's Germplasm Resources
RPTNO: CED-82-7 DOCUMENT DATE: 12/04/81

ORGANIZATION CONCERNED:
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
352.0/Agriculture: Agricultural Research and Services
LAW AUTHORITY:
Research and Marketing Act

BACKGROUND:

GAO reviewed the Department of Agriculture's (USDA) storage, collection, and maintenance of germplasm, the genetic base of U.S. crops, to determine if the germplasm system adequately protects against catastrophic loss.

FINDINGS:

GAO found that the system has numerous operational problems, primarily due to a lack of departmental attention and a low priority given to improving the system. Specific areas which contributed to the problems in collection, storage, and maintenance include: (1) insufficient information on who all of the germplasm curators are and what germplasm exists in storage or in its native environment; (2) insufficient planning to determine what genetic material for crops important to U.S. agriculture should be collected and stored; (3) curators who were supposed to provide permanent backup storage for the germplasm system had sent samples of only about 51 percent of the germplasm they held to the National Seed Storage Laboratory; (4) most of the storage conditions for the working collections were inadequate; (5) particular seeds were in short supply or very old, and this diminished their germination capabilities; (6) the small grains curator and some of the other working collection curators do not have testing equipment to identify when a sudden loss of viability occurs so that germplasm can be replenished; and (7) some curators are behind in replenishing germplasm that is in danger of losing its viability. GAO concluded that insufficient management attention by USDA to germplasm collection, storage, and maintenance has endangered germplasm preservation within the United States.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should initiate action to assure that germplasm in the United States is stored adequately. This should include contacting all curators, both Federal and non-Federal, who store germplasm and determining whether or not they store the germplasm under adequate temperature and humidity controls and are using moisture-resistant containers. Those Federal curators who do not have adequate storage facilities should be required to improve their facilities to meet minimal acceptable conditions or move a sufficient amount of germplasm to storage facilities that can protect germplasm viability. Non-Federal curators should be encouraged to take similar action.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should initiate projects to implement backup storage. This should include identifying all curators and their germplasm and comparing those results with the germplasm stored at the National Seed Storage Laboratory (NSSL). USDA should require Federal curators to provide germplasm for backup storage to NSSL and should require NSSL to assure that its germplasm is also being stored with other curators. It should encourage similar action for non-Federal curators.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should take an accurate inventory of the small grains collection. This should include a physical comparison of germplasm in storage and on inventory records, taking appropriate actions to acquire missing germplasm.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should verify the need for germination testing equipment at all curator storage facilities. Because some of the curators do not work for USDA, the agency cannot require corrective actions by all curators. If such equipment is not available at non-Federal locations, USDA should encourage the curator to move some of the seed, enough to ensure its continued preservation, to a storage facility with germination testing equipment or arrange for periodic testing at a testing facility.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should determine the extent

to which curators are behind in their germplasm grow-out programs. Following this assessment, needs should be ranked so that available assistance can be provided to assure that germplasm most in danger of losing its viability is preserved.
STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:
USDA is in the process of reviewing/revamping the germplasm system.
ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Legislative and Administrative Changes To Improve Verification of Welfare Recipients' Income Could Save Millions
RPTNO: HRD-82-9 DOCUMENT DATE: 01/14/82
ORGANIZATION CONCERNED:
Department of Health and Human Services
Department of Housing and Urban Development
Department of Agriculture
Department of Labor
Office of Management and Budget
Social Security Administration
Internal Revenue Service
PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements
LAW AUTHORITY:
Unemployment Tax Act
26 U.S.C. 3304(a)
Tax Reform Act of 1976
Privacy Act of 1974
Housing and Community Development Act of 1974
Social Security Act
42 U.S.C. 1381
P.L. 95-216
P.L. 96-249

BACKGROUND:
GAO was requested to review the manner in which income and asset information is used and verified by administering agencies to determine eligibility for Federal assistance programs which provide benefits to needy individuals and families.

FINDINGS:
Underreporting of income and assets by recipients of benefits from needs-based programs, whether deliberate or otherwise, results in hundreds of millions of dollars in improper payments each year. Current verification requirements and practices are not adequate to prevent such payments. Verification requirements vary widely, but generally are vague or overly restrictive. Furthermore, some Federal laws and regulations preclude the use of information which, if available, would enhance the verification process.

RECOMMENDATIONS TO CONGRESS:
RECOMMENDATION: Congress should amend the Tax Reform Act of 1976 to permit disclosure of individual wage data, data on net earnings from self-employment, and payments of retirement income maintained by the Social Security Administration to Federal, State, and local agencies administering federally funded needs-based programs, whenever comparable data are not maintained at the State level.
STATUS: Action in process. Completion date unknown.
RECOMMENDATION: Congress should amend the Tax Reform Act of 1976 to permit disclosure of the Internal Revenue Service Information Return Processing File data on unearned income to Federal, State, and local agencies administering federally funded needs-based programs.
STATUS: Action in process. Completion date unknown.
RECOMMENDATION: Congress should require that social security numbers be obtained for applicants and recipients of any federally funded needs-based program.

STATUS: No action initiated. Affected parties intend to act. Intended action date:

RECOMMENDATION: Congress should amend the Federal Unemployment Tax Act to require that all States collect individual wage information on a quarterly basis for use in their unemployment insurance programs and in federally funded needs-based programs.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Director of the Office of Management and Budget should identify which of the 58 federally funded needs-based programs should use Social Security Administration wage, self- employment earnings, retirement income, and benefit data; Office of Personnel Management wage data; State wage data; and Internal Revenue Service information return data.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Director of the Office of Management and Budget should direct that all Federal departments and agencies responsible for the needs-based programs issue regulations to require the use of the data with appropriate safeguards and that they establish mechanisms to monitor the use of the data.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretaries of Agriculture and Health and Human Services should acquire and make Office of Personnel Management wage data available to agencies that administer the programs. In this regard, administering agencies would have to comply with the guidelines for data matching under the Federal Privacy Act of 1974.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretaries of Agriculture and Health and Human Services should require that, in administering the programs, Federal, State, and local agencies use available Federal and State wage data and Social Security Administration retirement income and benefit data provided by the beneficiary data exchange and the State data exchange.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Housing and Urban Development should require applicants for and tenants of Section 8 Housing to furnish copies of their Federal tax returns at the time of application and of recertification for use in determining their eligibility for rental assistance.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

HUD disagrees with the recommendation. Resolution of this dispute will be attempted during the continuing followup work.

RECOMMENDATIONS: The Secretary of Housing and Urban Development (HUD) should require that available Federal and State wage data are used in the HUD annual Section 8 Housing management reviews to verify that housing managers are accurately determining applicants' or tenants' income.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

HUD disagrees with the recommendation. Resolution of this dispute will be attempted during the continuing follow-up work.

AGENCY COMMENTS:

OMB concurred and has begun action on the recommendations. HUD disagrees with the recommendations. Although GAO made no recommendation to the Department of Labor, it has drafted legislation which would accomplish the recommendation to Congress that it amend the Federal Unemployment Tax Act. This legislation has been approved by the Secretary of Labor and was submitted to OMB on August 30, 1982. HHS generally concurred with the GAO recommendations, but disagreed that: (1) there is a need for making OPM wage data available to agencies administering needs-based programs; and (2) it is impractical to require States to use data SSA provides. GAO plans to respond to the HHS comments. Agency comments were received from: OMB on March 18, 1982; HUD on March 23, 1982; and HHS on July 22, 1982. Agriculture's response was sent to the committees on April 6, and May 7,

1982; however, GAO received its comments on December 13, 1982.
ASSOCIATE DIRECTOR: McGough, Peter J.
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TITLE: Millions Could Be Saved by Improving Integrity of the Food Stamp Program's Authorization-To-Participate System
RPTNO: CED-82-34 DOCUMENT DATE: 01/29/82
ORGANIZATION CONCERNED:
Department of Agriculture
Food and Nutrition Service
PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements
LAW AUTHORITY:
Food Stamp Act Amendments of 1980
P.L. 96-249
Food Stamp and Commodity Distribution Amendments of 1981
P.L. 97-98

BACKGROUND:

GAO reviewed the Department of Agriculture's use of the Authorization-to-Participate (ATP) system, the Food Stamp Program's principal benefit-delivery method. The purpose of the review was to make a preliminary assessment of the Food and Nutrition Service's efforts to assure the integrity of the system which will deliver about $8 billion of the estimated $10.6 billion of food stamp benefits in fiscal year 1982.

FINDINGS:

GAO found that the ATP system has serious weaknesses. While losses through the system have been reported to be about $12 million annually, the inaccurate and incomplete reconciliation reports submitted by some food stamp agencies and the lack of reconciliation reports by others indicate that actual losses are greater. As a result, the Food and Nutrition Service does not know the full extent of the losses. Moreover, it has opted to assume the fiscal liability of these losses when in fact some could have been prevented by food stamp agencies. The Service has issued regulations requiring the use of photo identification at all food stamp projects. The new regulations also limit ATP card replacements, but duplicate transactions may still occur. GAO found that not all food stamp agencies that have serious ATP problems are required to use photo identification under the current criteria.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should direct the Acting Administrator of the Food and Nutrition Service to take specific measures to improve the Authorization-to-Participate (ATP) system's fiscal integrity, including: (1) determining those elements of existing ATP delivery systems which are most effective in preventing program losses and direct that the more effective methodologies be used where appropriate; (2) verifying data on the reconciliation reports by reviewing food stamp agencies' ATP issuance and reconciliation systems and records, identifying through these reviews food stamp agencies that may be more likely to have recurring duplicate ATP transactions, and analyzing these weaker systems and requiring the food stamp agencies to correct flaws contributing to program losses; (3) requiring photo identification at all food stamp agencies experiencing significant duplicate ATP transactions but not currently covered by the regulations; (4) including enforcing program regulations making States and local food stamp agencies liable for program losses that should have been prevented; and (5) including reevaluating the new ATP replacement regulations to determine if weaknesses in the regulations can be eliminated.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

The agency contracted with a research firm to evaluate the effectiveness of all issuance systems currently operating in the Food Stamp Program. The service issued proposed regulations allowing States to use the direct pickup issuance system for ATP cards. The agency required its regional offices to: (1) conduct detailed reviews of the ATP, reconcile reports to identify deficiencies with State systems; (2) provide technical assistance; and (3) visit State agencies that appeared to be reporting inconsistent/questionable data and review their reconciliation systems. The agency required additional food stamp project locations to use photo identification and established criteria to identify other locations where use of photo identification would be appropriate. The agency disagreed with the recommendation that States should be held liable for duplicate transaction losses and is reevaluating ATP replacement regulations to determine if noted weaknesses can be eliminated.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: [Changes Are Needed in the Proposed Departmental Review and Evaluation of the Puerto Rico Block Grant]
RPTNO: CED-82-50 DOCUMENT DATE: 02/24/82

ORGANIZATION CONCERNED:
Department of Agriculture
Food and Nutrition Service
Puerto Rico

PRIMARY BUDGET FUNCTION(S):
604.0/Income Security: Housing Assistance and Other Income Supplements

LAW AUTHORITY:
Omnibus Budget and Reconciliation Act of 1981
P.L. 97-35
95 Stat. 357
95 Stat. 364
H. Rept. 97-208

BACKGROUND:

GAO reviewed the Department of Agriculture (USDA) Food and Nutrition Service's (FNS) proposed study of Puerto Rico's transition from the Food Stamp Program to the Puerto Rico Block Grant which is part of the USDA Nutritional Assistance Grant.

FINDINGS:

GAO believes that the limited objectives of the preliminary study plans do not fully address the grant's primary objective to provide nutritional assistance to the needy and could therefore restrict the usefulness of the data gathered. FNS proposes to: (1) develop a case study to describe the conversion from the Food Stamp Program to the grant; and (2) estimate the impact of the grant on the participation rates, benefits, and program costs. Also, GAO believes that a complete and timely impact assessment of the new program is important to measure the grant's impact on recipient benefits and participation within Puerto Rico and to assist other States in designing and implementing a nutritional assistance program if the Food Stamp Program is turned back to the States. The second area of concern for GAO is that the methodology section of the proposed plan needs additional development. However, nothing more will be done to develop the study until Puerto Rico releases its operational plan. Some of the methodology for program assessment is independent of program specifics. For example, the preliminary study plan indicates that an abbreviated time-series design will be used to estimate cost impact. Since the time-series analysis is based upon data that are already available, the design detail could be developed to show that it will provide answers to questions of interest and concern and that the study can be operable when the new program is initiated.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of the Department of Agriculture should direct the Acting Administrator of the Food and Nutrition Service (FNS) to expand and modify the FNS preliminary evaluation plan along the lines discussed in this report to fully address the legislative objectives of the Nutritional Assistance Grant and to provide for a more comprehensive plan of data collection and analysis.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

FNS has decided not to attempt to assess the impact of the grant on the nutritional status of participants in Puerto Rico. It said that the lack of suitable baseline data and the resulting problems in attributing observed changes to the implementation of the grant argue against including this objective in the study plan. Also, the high cost of data collection supports this decision. FNS will evaluate operations, costs, and outcome of agriculture projects funded under the grant. It is developing the study, design, and analysis plan for the impact evaluation. Objectives of the study have been defined on judgments of significance, feasibility, data availability, technical merit, and costs. It will implement a case study to document the events during the conversion from the Food Stamp Program to the Nutrition Assistance Grant. In line with a congressional mandate, FNS plans to issue an interim report by March 1983 with final results being published later.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: FDA Can Further Improve Its Adverse Drug Reaction Reporting System
RPTNO: HRD-82-37 **DOCUMENT DATE:** 03/08/82

ORGANIZATION CONCERNED:
Department of Health and Human Services
Food and Drug Administration

PRIMARY BUDGET FUNCTION(S):
551.2/Health: Prevention and Control of Health Problems

LAW AUTHORITY:
21 C.F.R. 301.300

BACKGROUND:

GAO reviewed the Food and Drug Administration's (FDA) adverse drug reaction reporting system, because a comprehensive survey of FDA monitoring of prescription drugs showed that many of the problems identified in a previous report still exist. In that report, GAO noted that the reporting system was underused as a tool to regulate marketed drugs.

FINDINGS:

GAO found that medical officers are making more use of the reporting system than they previously did. Many said that the system is useful and is improving. The Division of Drug Experience has offered seminars and workshops on the capabilities and limitations of the reporting system. Despite this training, some medical officers indicated that they were unaware of what the system could do. GAO reviewed individual drug reaction reports submitted by the manufacturers and found that less than half had been entered into the system and only 60 percent had reached the Division. As a result, the system failed to identify some potentially serious adverse reactions. FDA needs all the information available if it is to make timely determinations on the need for regulatory action. The procedures for routing adverse reaction reports submitted by manufacturers were revised to allow reports to reach the Division sooner. This change, however, may not result in more reports getting into the system. Because of the current budget situation, additional staff and resources may not become available, and FDA should explore alternative methods of evaluating and entering reports into the system. The Division entered over 115,000 reports into the adverse reporting system. The largest number of reports were received from manufacturers. Little has been done to encourage reporting from sources other than manufacturers, but the Division plans to increase nonmanufacturer reporting. GAO explored alternatives of increasing adverse reaction reporting.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary, Health and Human Services (HHS), should require the Commissioner, FDA, to require medical officers to attend seminars and workshops sponsored by the Division of Drug Experience intended to train them on the capabilities of the adverse drug reaction system.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary, HHS, should require the Commissioner, FDA, to instruct the Division of Drug Experience to solicit feedback from medical officers in the Office of New Drug Evaluation as to how the system could be improved to better meet their needs and implement those proposals which are cost effective and could increase medical officers' use of the system.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary, HHS, should direct the Commissioner, FDA, to explore alternative methods for evaluating and processing nonserious, known reactions to drugs. Consideration should be given to not entering into the system some of the common, known reactions which add little or nothing to the knowledge of marketed drugs.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary, HHS, should encourage other Federal agencies operating hospitals to develop an adverse drug reaction reporting system.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary, HHS, should direct administrators of hospitals within HHS to cooperate with the Division of Drug Experience by establishing and using reporting systems in their hospitals.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary, HHS, should direct the Commissioner, FDA, to explore alternative methods, such as toll-free or collect-call service, to increase the quantity and quality of reports from nonmanufacturer sources.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

HHS agreed with the recommendations and advised GAO of actions being taken by FDA. FDA revised routing procedures for adverse reaction reports which increased the number of reports that reach the operating division and the number entered into the computer system. FDA revised procedures for processing adverse reaction reports. The Secretary of HHS now requires quarterly reports from FDA on the number of reports received and processed, and on the processing timeframes. FDA is holding seminars for medical officers on the use of the system and (1) has developed an abbreviated method of computer entry of reports of nonserious reactions; (2) has met with representatives of various Federal agencies to improve participation by Federal hospitals in reporting adverse reactions; (3) completed a study of the feasibility of using a toll-free phone system; and (4) will evaluate the potential of incorporating and adverse reporting system to the new AMA computer drug information system.

ASSOCIATE DIRECTOR: Curtis, Franklin A.
PHONE NUMBER: (202)275-5451

TITLE: FDA's Approach to Reviewing Over-the-Counter Drugs Is Reasonable, but Progress Is Slow

RPTNO: HRD-82-41 DOCUMENT DATE: 04/26/82

ORGANIZATION CONCERNED:
Department of Health and Human Services
Food and Drug Administration

PRIMARY BUDGET FUNCTION(S):
554.0/Health: Consumer and Occupational Health and Safety

LAW AUTHORITY:
Drug Listing Act of 1972
21 U.S.C. 360
Food, Drug and Cosmetic Act
21 U.S.C. 301

BACKGROUND:

GAO reported on the Food and Drug Administration's (FDA) evaluation of the safety and effectiveness of over-the-counter drugs, a review which began in 1972 and which is not expected to be completed until 1990.

FINDINGS:

The FDA strategy for reviewing over-the-counter drugs involves making a scientific analysis of available data and setting standards of safety and effectiveness for each ingredient used in classes of drugs, instead of reviewing each drug product separately. The review process consists of the review of the scientific data by expert advisory panels, FDA review of the panel findings, drafting and publishing of monographs, and the enforcement of the monographs. In 10 years, FDA has completed only 4 of 64 planned final regulations. Average processing time has risen despite a greatly increased staff. The review has resulted in unsafe or ineffective products being removed from the market. Also, products have been voluntarily reformulated and relabeled, and some drugs that previously were available only by prescription are now sold over the counter. However, most of the review's expected benefits have not been realized. The review turned out to be a much larger task than anticipated. Additional factors which contributed to delays included: poor prioritizing, failure to use status reports to track progress in the completion of monographs, delayed policy decisions, and the ineffective use of staff in branch offices. A GAO review of two pilot compliance programs indicated potential problems for future compliance efforts. These problems were caused by the lack of an accurate listing of over-the-counter drugs and the FDA failure to adequately monitor or evaluate enforcement efforts.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to establish priorities for completing individual monographs based on objective criteria, such as consumer sales or market impact, and establish detailed milestones for completing the development of monographs and the publication of final regulations based on actual experience, staff skills and experience, the work required, and the priority of the monographed document.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to develop a mechanism for high-level agency officials to promptly identify and resolve policy issues.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to review, and revise where appropriate, procedures for reviewing draft monograph documents to ensure that branch personnel are given the necessary supervision and authority to develop the products for which they are responsible.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to determine, based on the anticipated cost and timeliness of possible alternative approaches, whether the over-the-counter drug listing files are needed. If the listing is not needed, FDA should propose legislation to amend the Drug Listing Act to eliminate the reporting requirement. If it is needed, FDA should assess the relative efficiency of updating the entire system in the next few years or updating the system by drug category as monographs are published.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to establish measurable objectives for the over-the-counter drug enforcement effort and the expected timetables for performing the work.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to maintain for each category of drug product a complete master list of firms manufacturing the drug and a list of products as they are identified for each monograph.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to track the progress made in reviewing and following up on products subject to the monographs and highlight, through written reports or regular meetings with district representatives, problems encountered in enforcing monographs.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of HHS should direct the Commissioner of FDA to establish goals for expediting the over-the-counter drug review and develop a system for measuring progress in completing all monograph documents which measures progress against projected milestones and provides feedback to HHS and FDA.

STATUS: Recommendation no longer valid/action not intended.

NON ACTION TEXT:

HHS has taken actions to monitor progress in completing monographs differently than proposed. A system has been developed to monitor the length of time a document has been in an office. If closely monitored and enforced, this system could work. While GAO has doubts about implementation and practicality, it would require too much work to prove it.

AGENCY COMMENTS:

HHS found the report to be generally well balanced in tone and constructive in its analysis of the FDA over-the-counter drug evaluation program. HHS agreed with the GAO observations that the policies and procedures for carrying out the review are logical and reasonable and that the review is taking longer to complete than originally anticipated. The report had also identified some areas of program administration requiring corrective action. HHS pointed out that FDA had already initiated some corrective measures as a result of discussions with GAO and the agency's own evaluation of the program. Major actions being taken in response to this report are: (1) an evaluation of the program, including a number of staff studies, to determine if further procedural and policy changes are necessary; and (2) an exploration of the possibility of having an outside contractor operate the drug listing program while providing FDA with the information required for program purposes.

ASSOCIATE DIRECTOR: Curtis, Franklin A.
PHONE NUMBER: (202)275-5451

TITLE: [Assistance to Beginning Farmers]
DOCUMENT DATE: 05/14/82

ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Stabilization and Conservation Service

PRIMARY BUDGET FUNCTION(S):
350.0/Agriculture

LAW AUTHORITY:
Farm Credit Act Amendments of 1980
P.L. 96-592

BACKGROUND:

Because of concerns raised about the obstacles faced by beginning farmers in obtaining financing to enter agriculture and the declining number of farms in the United States, GAO reviewed Federal and State efforts to help beginning farmers.

FINDINGS:

Federal assistance programs for people entering farming consist primarily of loans and loan guarantees. Eleven bills were introduced in the 96th and 97th Congresses to target Federal programs to beginning farmers. Although most of the programs in 14 States that assist beginning farmers are also loan and loan guarantee programs, two State programs provide land for new farmers. The current Department of Agriculture (USDA) analysis of farm trends describes net changes in farm numbers, but it does not provide data on numbers of farmers entering or leaving farming, and there are little data on the impact of existing farm programs on beginning farmers or the farm sector. Without an understanding of the changes in the farmer population and the impact of existing programs on beginning farmers, it is difficult for Congress to consider changes to farm programs that would successfully assist the beginning farmer. Raw data are available nationwide at county agricultural offices that can be used to determine the numbers of farmers entering and leaving farming and to obtain information about the numbers of people wishing to enter farming. USDA could collect and tabulate this data within existing resources and provide farmer demographic information, a profile of the beginning farmer situation, a basis for evaluating the existing programs' impact on beginning farmers, and data for evaluating proposed legislation.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should direct USDA to analyze trends in farmer numbers and target Government programs to the desired group of farmers.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct USDA to evaluate the impact of existing programs which help farmers enter the agricultural sector.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct USDA to tabulate data on qualified persons applying for loans to enter farming through Federal programs and the number actually receiving loans.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct USDA to revise the Agricultural Stabilization and Conservation Service recordkeeping system to tabulate available data on farmers entering and leaving the agricultural sector.

STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

USDA stated that it recognizes and shares the concerns expressed in this report regarding assistance to beginning farmers and the need to have better information regarding trends on persons entering and exiting farming operations, to develop policy decisions. It stated that such data would be useful in determining whether or not there was a need for special programs to assist beginning farmers. However, it believes that there are a number of factors which complicate the collection of the type of data suggested in this report. USDA mentioned the inavailability of the information, the difficulties in getting it, and the substantial additional cost of collecting it.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Savings Are Possible Through Better Management of Government-Owned Dairy Products
RPTNO: CED-82-79 DOCUMENT DATE: 05/18/82

ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Stabilization and Conservation Service

PRIMARY BUDGET FUNCTION(S):
351.0/Agriculture: Farm Income Stabilization

LAW AUTHORITY:
Agricultural Act of 1949
7 U.S.C. 1421 et seq.
Agriculture and Food Act of 1981
P.L. 97-98

BACKGROUND:

GAO reviewed the Department of Agriculture's (USDA) policies and procedures for storing dairy products acquired through the dairy price-support program. The purpose of the review was to evaluate how these products were managed, because the Government-owned inventories of butter, cheese, and nonfat dry milk increased substantially during fiscal years 1980 and 1981, and these products comprise the largest share of Government-owned commodities.

FINDINGS:

USDA successfully located sufficient storage space for the dairy products, which increased from about 705 million pounds in fall 1979 to more than 2 billion pounds by fall 1981. GAO concluded that USDA would realize an estimated annual savings of up to $1.4 million if it purchased its requirements for 1-pound packages of butter directly from suppliers. Butter in 1-pound packages is used in the domestic school lunch and food-for-the-needy programs and is supplied by repackaging blocks of bulk butter. USDA did not act on previous recommendations to buy 1-pound packages of butter because of the large inventory of bulk butter on hand and its concern that the older stock would deteriorate before it was used. GAO concluded that warehouses storing the dairy products are examined more often than necessary. It was estimated that approximately 2600 staff hours of warehouse examiners' time could be saved annually if the frequency of examinations were reduced from three times to two times a year for warehouses that have good performance records. This would provide time for the decreasing staff of examiners to cope with an increasing workload.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator of the Agricultural Stabilization and Conservation Service to establish a policy to buy the Department's requirements for 1-pound packages of butter directly from suppliers whenever possible. The Administrator should implement this policy immediately so that part of the requirement for the next full quarter could be acquired in this manner based on an analysis of projected needs and present inventory. For each succeeding quarter, the Administrator should reevaluate Government-owned butter inventories to determine the amount such purchases can be increased so that eventually all requirements can be obtained by direct purchases.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should direct the Administrator of the Agricultural Stabilization and Conservation Service to identify those warehouses that have good performance records and reduce the examination frequency for these warehouses to twice a year.

STATUS: Action completed.

AGENCY COMMENTS:

Agriculture agreed with the recommendations; however, it does not plan to implement the first recommendation until the current inventory of aging bulk butter stocks have been used up.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Progress Made in Federal Human Nutrition Research Planning and Coordination; Some Improvements Needed
RPTNO: CED-82-56 DOCUMENT DATE: 05/21/82

ORGANIZATION CONCERNED:
Department of Agriculture
Department of Health and Human Services
Office of Science and Technology Policy
National Institutes of Health

PRIMARY BUDGET FUNCTION(S):
352.0/Agriculture: Agricultural Research and Services

LAW AUTHORITY:
Science and Technology Policy, Organization, and Priorities Act
Omnibus Budget Reconciliation Act of 1981
P.L. 97-35
Food and Agriculture Act of 1977
P.L. 95-113
Agriculture, Rural Development, and Related Agencies Appropriation Act, 1979
P.L. 95-448
Agriculture and Food Act of 1981
P.L. 97-98

BACKGROUND:

In response to a congressional request, GAO reported on the planning and coordination of federally supported human nutrition research.

FINDINGS:

Considerable progress has been made within and among Federal human nutrition research departments and agencies since Congress called for improved coordination in the Food and Agriculture Act of 1977. The Office of Science and Technology Policy (OSTP) has been a major contributor to, and a catalyst for, improved coordination of nutrition research and has set the groundwork for developing an improved Federal coordinated nutrition research planning system. The Department of Agriculture (USDA) and the Department of Health and Human Services (HHS) have established nutrition coordinators and policy and coordination groups to deal with crosscutting nutrition issues. GAO believes that these coordination efforts should be continued and maintained as some of the Federal departments reorganize or revise their nutrition research programs. Coordination within USDA is critically needed because of the recent decentralization of its nutrition information functions from its nutrition research functions. Nutrition research departments and agencies need to more clearly plan their research efforts with others through a Federal nutrition research plan. An OSTP report on human nutrition research is a first step toward developing such a plan, but the six areas discussed in the report should be developed and expanded into a single research plan which would include an assessment of needs, priorities, and strategies. Existing agency nutrition research plans are either too narrow in scope or are missing certain key planning components.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should amend Memorandum No. 2030, dated April 9, 1981, which established the Human Nutrition Board of Scientific Counselors, to include USDA officials and ex officio Board members and exclude them from serving as chairman and vice chairman of the Board.

STATUS: Action completed.

RECOMMENDATIONS: The Secretary of Agriculture should revise the charter of the Human Nutrition Board of Scientific Counselors to reflect the USDA reorganization, including the nutrition activities transferred to the Assistant Secretary for Food and Consumer Services.

STATUS: Action completed.

RECOMMENDATIONS: The Director of OSTP should direct the OSTP Joint Subcommittee on Human Nutrition Research to develop a Federal nutrition research plan by updating and expanding its December 1980 report on federally supported human nutrition research. In updating the report, the Subcommittee and the Federal departments and agencies should work together to develop specific goals, objectives, and strategies and to identify the responsibilities of the Federal departments and agencies and the required resources and timeframes to accomplish the research goals.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretaries of Agriculture and Health and Human Services, in developing their plan, should address the need to obtain expert and user advice and comments from nutritionists and other scientists; library, computer, and budget specialists; congressional staff; and others external to the Federal departments to help the Secretaries develop a system that will provide research information and cost data that is timely, useful, comprehensive, reliable, and widely accepted by Congress, the executive agencies, and the nutrition community.

RECOMMENDATIONS: The Secretary of Health and Human Services should direct the Director of the National Institutes of Health to: (1) include other Federal nutrition research center representatives as participants in the planned Clinical Nutrition Research Unit (CNRU) site visits, or revisits; and (2) prepare a summary report on the CNRU reviews and provide the information to other Federal nutrition research administrators and other interested parties, such as the appropriate congressional committees and the scientific community. This report should include an assessment of all seven CNRU's.

STATUS: Action in process. Completion date unknown.

AGENCY COMMENTS:

In response to the primary recommendation to develop a Federal nutrition research plan with specific goals, objectives, and strategies, the Science Advisor to the President has directed the Chairpersons of the OSTP Joint

Subcommittee on Human Nutrition Research to develop a strategy and schedule for the timely development of the kind of plan envisioned in the GAO report. In addition to comments from USDA, GAO received comments from HHS (August 16, 1982) and OSTP (July 27, 1982).
ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Agricultural Marketing Act Inspections Should Be Administered by Single USDA Agency
RPTNO: CED-82-69 DOCUMENT DATE: 05/21/82
ORGANIZATION CONCERNED:
Department of Agriculture
Agricultural Marketing Service
Federal Grain Inspection Service
PRIMARY BUDGET FUNCTION(S):
352.0/Agriculture: Agricultural Research and Services
LAW AUTHORITY:
Agricultural Marketing Act of 1946
7 U.S.C. 1621 et seq.
Grain Standards Act
7 U.S.C. 71 et seq.
P.L. 83-480
BACKGROUND:
GAO reviewed the Department of Agriculture (USDA) food and inspection grading activities carried out under the Agriculture Marketing Act of 1946. Responsibility within USDA for these activities is currently shared by the Agricultural Marketing Service (AMS) and the Federal Grain Inspection Service (FGIS); GAO also reviewed this division of responsibility.
FINDINGS:
GAO found that FGIS relies on local individuals under annual personal service contracts called contract samplers rather than its own employees to do contract compliance inspections. AMS provides contract compliance services for most Act products and it usually has employees near or in the immediate area of plants under FGIS jurisdiction who could absorb most of the FGIS workload. Therefore, the AMS employees could probably provide higher quality and more reliable services. Since testing processed grain products in connection with contract compliance inspections is the primary mission of the FGIS laboratory, it could also be transferred to AMS, because AMS has three laboratories that do similiar testing. FGIS now diverts a certain amount of testing work to private laboratories to keep them under contract in case their facility cannot handle peak workloads. FGIS provides other services under the Act besides contract compliance services. GAO believes that transferring the Act functions would be desirable, even though such a transfer would not necessarily result in higher quality or more efficient services. Without these Act responsibilities, FGIS could devote more attention to its primary grain inspection mission and could better maintain that program's integrity despite staff cutbacks. FGIS already has personnel at major ports. Therefore, it could provide export inspection services more efficiently.
RECOMMENDATIONS TO AGENCY:
RECOMMENDATIONS: The Secretary of Agriculture should transfer to AMS responsibility for inspecting and grading commodities covered by the Agricultural Marketing Act of 1946 that are now assigned to FGIS.
STATUS: No action initiated: Date action planned not known.
RECOMMENDATIONS: The Secretary of Agriculture should transfer a sufficient number of FGIS personnel with expertise in grading rice and other commodities which FGIS now grades under the Act.
STATUS: No action initiated: Date action planned not known.
RECOMMENDATIONS: The Secretary of Agriculture should transfer FGIS commodity testing laboratory in Beltsville, Maryland.
STATUS: No action initiated: Date action planned not known.
RECOMMENDATIONS: The Secretary of Agriculture should instruct the Administrators of FGIS and AMS to execute a memorandum of understanding

providing for FGIS personnel to continue inspection and testing services they now provide on exported commodities.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should instruct the Administrator of AMS to establish a formal policy and system for maximizing crossutilization of AMS personnel on contract compliance inspection work.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Secretary of Agriculture should instruct the Administrator of (FGIS) to either: (1) transfer grain research work now done by the Beltsville laboratory to the FGIS laboratory in Grandview, Missouri, or (2) effect a memorandum of agreement with the Administrator of AMS providing for the Beltsville laboratory to continue this work on a reimbursable basis.

STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

USDA disagreed with all but one of the recommendations. While agreeing that centralized managemont of like functions is normally desirable, USDA maintained that a split in responsibilities for Agriculture Marketing Act inspection and grading activities is justified because of similarities in inspections conducted under the U.S. Grain Standards Act. Accordingly, USDA plans no action on the recommendations except to study opportunities to cross-utilize peronnel assigned to the two agencies which carry out the activities in question.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: What Can Be Done To Improve Nutrition Education Efforts in the Schools
RPTNO: CED-82-65 DOCUMENT DATE: 05/25/82

ORGANIZATION CONCERNED:
Department of Education
Department of Agriculture

PRIMARY BUDGET FUNCTION(S):
501.0/Education, Training, Employment, and Social Services: Elementary, Secondary, and Vocational Education

LAW AUTHORITY:
School Lunch Act
P.L. 91-248
Child Nutrition Act
Economic Opportunity Act of 1964
Elementary and Secondary Education Act of 1965
Vocational Education Act
P.L. 97-35

BACKGROUND:

GAO reviewed the importance of nutrition education in the schools as it relates to: (1) improving eating habits, (2) reducing food waste, and (3) aiding or reducing the need for other federally supported nutrition education activities. GAO also discussed the status of nutrition education in the schools and what the Federal Government can do to help improve it.

FINDINGS:

GAO found that neither the Department of Agriculture (USDA) nor the Department of Education have gathered information on federally funded nutrition education projects for assessment and dissemination of the results to State and local education agencies. USDA claimed that it lacked Nutrition Education and Training Program funds to reproduce and disseminate information and that it has no criteria to assess the quality of nutrition education information. Both USDA and Education have systems to gather and disseminate information, so no new mechanism should be needed. USDA requires participating States to evaluate the Nutrition Education and Training Program's effectiveness and specify objectives based on participants' needs. Three of the four States GAO visited did not evaluate their program's effectiveness or specify objectives on participants' knowledge, attitudes, or behavior. This occurred because USDA did not provide adequate guidance or training to States on evaluations and objectives. As a result, States had difficulty identifying evaluation materials. Coordination efforts are weak at all levels: between USDA and Education, and within the USDA Nutrition Education and Training Program and private sector groups such as the dairy council. Many teachers are not prepared to teach nutrition upon entering the teaching profession, because few States require teachers to take nutrition courses.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should convene a panel of experts to develop guidelines for evaluating the quality of available nutrition education efforts for use in the schools. The panel should include teachers, food service personnel, nutritionists, system design experts, and other appropriate persons.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should share these guidelines with interested State and local education agencies.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should systematically gather and evaluate to the extent possible information on nutrition education projects that meet the established guidelines.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should provide State and local education agencies and other interested parties access to the evaluation results and nutrition education information meeting the guidelines. Department of Agriculture and Department of Education dissemination systems should be adequate for this purpose.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should aid interested States by developing general program goals and comprehensive guidance on how to specify program objectives for students, teachers, and food service personnel in the areas of knowledge, attitude, and behavior.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should aid interested States by developing evaluation guidance for measuring changes in participants' knowledge, attitudes, and behavior.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should convene a panel of experts to help develop the above guidance and establish program goals. These experts should include nutritionists, teachers, school administrators, education evaluators, and other appropriate groups. Once USDA develops the guidance, States would have the option of using it or of developing their own.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should coordinate the USDA nutrition education activities for the schools with the Department of Education's nutrition education activities. This coordination should include, among other things: (1) identifying and sharing with interested State and local education agencies the extent and results of successful nutrition education activities to prevent unnecessary duplication; and (2) developing a unified strategy to reach as many students as possible needing nutrition education and the coordination should occur at the Federal level, be encouraged at the State level, and at all government levels should include the private sector, such as the dairy council.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Secretary of Agriculture should discuss with State education agencies involved in administering child nutrition programs and in providing nutrition education in the schools what approaches might be taken to help ensure that teachers have the basic skills needed to teach nutrition. One topic that should be included in the discussion is the possibility of establishing for all elementary schoolteachers in such subjects as home economics, health, and science: (1) nutrition education as a prerequisite for certification of new teachers; and (2) competency levels for nutrition education and providing in service training for teachers needing help in achieving these competency levels.

STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

Agriculture believes that the recommendations are contrary to directions it has been receiving from both the President and Congress.

ASSOCIATE DIRECTOR: Crowley, Brian P.
PHONE NUMBER: (202)275-5138

TITLE: Commodity Futures Regulation: Current Status and Unresolved Problems
RPTNO: CED-82-100 DOCUMENT DATE: 07/15/82

ORGANIZATION CONCERNED:
  Commodity Futures Trading Commission
  National Futures Association

PRIMARY BUDGET FUNCTION(S):
  376.0/Commerce and Housing Credit: Other Advancement of Commerce

LAW AUTHORITY:
  Commodity Exchange Act (Futures)
  Commodity Futures Trading Commission Act of 1974
    P.L. 93-463
    88 Stat. 1389
  Futures Trading Act of 1978
  Independent Offices Appropriation Act, 1952
    31 U.S.C. 483a
  Paperwork Reduction Act of 1980
    44 U.S.C. 3501 et seq.
  Administrative Procedure Act
  Securities Exchange Act of 1934
  OMB Circular A-25
  OMB Circular A-123
  Commodity Futures Trading Comm. Reg. 1.35(g)(1)
  Commodity Futures Trading Comm. Reg. 1.50
  Commodity Futures Trading Comm. Reg. 1.51
  Commodity Futures Trading Comm. Reg. 1.52

BACKGROUND:

GAO conducted a review of the programs of the Commodity Futures Trading Commission to assess whether the Commission's programs meet the objectives established by Congress and measure up to the Commission's own stated objectives. This review was conducted to assist Congress in evaluating the Commission's performance in conjunction with its reauthorization.

FINDINGS:

GAO stated that the Commission has made progress in developing a regulatory framework to protect commodities customers and that the principal Federal programs for commodities futures regulation must continue if futures trading is to operate reasonably free from abuse. Even if the exchanges assume increasing responsibility for key aspects of regulating futures trading, the Federal Government must continue to monitor exchange performance to determine whether self-regulation is working. The Commission's program to review the exchanges' rule enforcement procedures and performance have not covered all aspects of exchange programs often enough and have not promptly followed up on previously identified deficiencies. The Commission more thoroughly analyzes information submitted to support contract approval than it previously did; however, it still needs to strengthen and clarify its approval requirements and devote more effort to existing contracts to determine if they are actually meeting their economic function. Weaknesses in the Commission's automatic data processing programs prevent it from collecting and analyzing market data in a way that can effectively support its surveillance program. The Commission's efforts to register industry professionals and to identify and remove unfit individuals can also be improved. The reparations program is not meeting its objectives as it takes an average of 3 years to complete the reparations process, complainants have difficulty understanding the program, and the process is expensive.

RECOMMENDATIONS TO CONGRESS:

RECOMMENDATION: Congress should reauthorize the existing Federal commodity regulatory programs.

STATUS: Action in process. Completion date unknown.

RECOMMENDATION: Congress should amend section 8a(6) of the Commodities Exchange Act to authorize the Commodity Futures Trading Commission to routinely disclose large-trader information to contract markets for market surveillance purposes with adequate safeguards to protect the information's confidentiality.

STATUS: Action in process. Completion date unknown.

RECOMMENDATION: Congress should: (1) amend section 8a of the Commodities Exchange Act and insert a new subsection to allow applicants/registrants to appeal to the Commodity Futures Trading Commission any registration decision made by a registered futures association; (2) amend sections 4f and 4n of the Act to authorize a registered futures association to register futures commission merchants, commodity trading advisors, commodity pool operators, and floor brokers in lieu of registration with the Commission; and (3) amend section 4p of the Act to allow for the testing of commodity trading advisors and commodity pool operators and to allow any registered futures association to develop and administer such tests for all categories of Commission registrants upon Commission approval.

STATUS: Action in process. Completion date unknown.

RECOMMENDATION: Congress should clarify section 17(b)(4)(E) of the Commodities Exchange Act to ensure that any registered futures association, upon approval by the Commodity Futures Trading Commission, can collect the fingerprints of its members and submit those fingerprints to the Federal Bureau of Investigation for identification and processing.

STATUS: Action in process. Completion date unknown.

RECOMMENDATION: Congress should: (1) raise the dollar limitation on the amount customers can compel exchange members to arbitrate from $15,000 to $25,000; (2) authorize the Commodity Futures Trading Commission to periodically adjust this dollar limitation as warranted by inflation and to reflect the size of claims submitted to the reparations program; (3) raise the dollar limitation on the amount that customers will be able to compel National Futures Association members to arbitrate from $15,000 to $25,000; and (4) authorize the Commission to periodically adjust this dollar limitation as warranted by inflation and to reflect the size of claims submitted to the reparations program.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Commodity Futures Trading Commission should encourage NFA to expeditiously establish proficiency testing and qualification standards for Commission registrants.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should develop a plan for transferring specific audit functions to NFA.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Commodity Futures Trading Commission should work with the American Institute of Certified Public Accountants to provide for the timely publication of audit guidelines for use by independent public accountants in performing audits of futures commissions merchants.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should develop a plan for the NFA takeover of registration functions. This plan should be preceded by an analysis of the role NFA can and should play in registration, the Commission's residual role in registration, how the Commission will perform oversight of NFA registration activities, and the information that will be needed to perform this oversight.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should computerize all management information concerning the reparation program.

STATUS: No action initiated. Affected parties intend to act. Intended action date: 05/83

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should report pertinent program statistics to Congress on a regular basis to enable it to make informed judgments concerning the performance and future of the reparations program.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Commodity Futures Trading Commission should work with industry officials and NFA to encourage the use of the association as an arbitration forum.

STATUS: No action initiated. Affected parties intend to act. Intended action date: 05/83

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) adopt the proposed Guideline I revisions; (2) establish procedures for analysis economists to follow in contacting cash market participants including use of the expertise of Commission surveillance economists; and (3) require analysis economists to contact a significant portion of the potential hedgers who submit statements on behalf of an exchange applying for contract approval.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should establish an effective approach for reviewing existing contract markets which include: (1) adopting the proposed rules on dormant and low-volume contracts; (2) identifying contracts that may not be serving an economic purpose and requiring exchanges to demonstrate that these contracts continue to comply with economic requirements; and (3) using surveillance economists to review terms and conditions of existing contracts for conformity to current cash market practices.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) require exchanges to supply, at the time of their application, all the relevant support they intend to submit to demonstrate economic purpose; (2) establish written staff deadlines for all phases of the review process; and (3) require senior level officials to perform an initial contract review and brief the assigned economist on contract aspects that should be explored.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should charge a fee to collect contract approval process costs.

STATUS: No action initiated. Affected parties intend to act. Intended action date: 05/83

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) establish and implement a project to improve its large-trader reporting system which includes defining surveillance economists' needs regarding large-trader data and reporting outputs, exploring the use of machine-readable inputs, and identifying resources needed to maintain the necessary accuracy level; and (2) establish a program to improve the application of automatic data processing in routine analysis of surveillance data, and to develop more sophisticated analytical techniques for surveillance.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should comprehensively address how to assure that exchanges have available adequate large-trader data. This can be accomplished by using the Commission's planned options program to test the ability of exchanges to successfully collect and process large-trader data and by broadening the August 1980 proposed rules on large-trader data collection to assess the issues surrounding the Commission's routine supply of large-trader data to exchanges in return for a fee.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) implement by the July 1, 1982, target date associated persons sponsorship and the fingerprinting of registration applicants; (2) review the fitness of registrants against Security and Exchange Commission and Federal Bureau of Investigation files on a spot check basis during reregistration; and (3) revise its rules to require the registration of sales and supervisory personnel of commodity trading advisors and commodity pool operators.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) reduce the number of audits of member future commission merchants (FCM's) and rely instead upon the exchanges to be the primary monitors of these FCM's; (2) devote additional audit resources to monitoring nonmember FCM's and commodity pool operators; (3) provide additional specific guidance on how to conduct exchange audit and financial surveillance programs; (4) perform more frequent reviews of the exchanges' audit and financial surveillance programs and perform more active followup so that exchanges modify their audit and financial surveillance programs to comply with the Commission's recommendations; and (5) conduct reviews of exchange audit and financial surveillance programs in conjunction with rule enforcement reviews.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should direct the agency's Executive Director to: (1) establish a comprehensive information resource management planning process; (2) establish a standard agencywide project management process that will be applicable to each major software development project; (3) emphasize the importance of strong and effective ADP management; and (4) present for Commission consideration and approval a charter establishing the newly organized executive steering committee as a standing Commission committee and setting forth clearly its responsibilities and authority.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should consult with the chief administrative law judge to: (1) assign all reparations complaints to the administrative law judges' dockets as soon as the complainants' filing fees have been received; and (2) establish objective performance standards for administrative law judges that would explain what is expected in terms of performance and productivity.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should direct that the reparations rules be rewritten in plain English and simplified as much as possible.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should collect and analyze the detailed processing information needed to effectively manage the reparations program and assess its performance.

STATUS: Action in process. Completion date unknown.

RECOMMENDATIONS: The Chairman of the Commodity Futures Trading Commission should direct the staff to perform an evaluation of all exchange arbitration programs to determine whether they are meeting all legal requirements.

STATUS: No action initiated: Date action planned not known.

RECOMMENDATIONS: The Commodity Futures Trading Commission should: (1) reallocate its resources to provide greater support to the rule enforcement review program; (2) place greater emphasis on reviews that cover carefully selected aspects of exchange activities, but only after a period of comprehensive reviews has established that exchanges have effectively functioning self-regulatory programs; (3) increase the frequency of selective reviews once the transition from comprehensive reviews has been accomplished; (4) establish substantive followup procedures to ensure that exchanges correct identified rule enforcement deficiencies with reasonable promptness; (5) supplement the rule enforcement review process with a requirement that exchanges provide necessary evidence to demonstrate that their compliance programs satisfy statutory and Commission requirements; (6) develop more specific standards for exchange self-regulatory programs and more objective criteria to assess exchange self-regulatory performance; and (7) establish a firm link between contract market designation and compliance with exchange rule enforcement responsibilities, designating additional contracts only on those exchanges able to demonstrate

satisfactory compliance with self-regulatory responsibilities.
STATUS: No action initiated: Date action planned not known.

AGENCY COMMENTS:

The Commodity Futures Trading Commission commented that the GAO report made a significant contribution to this year's reauthorization process. The Commission welcomed the report's detailed critique of its operations over the past 4 years and its proposal for changes to improve Federal commodities regulation. It prepared detailed responses to the 51 report recommendations, has implemented many of the GAO proposals, and has pending plans for many others.

ASSOCIATE DIRECTOR: Dodge, Lowell
PHONE NUMBER: (202)275-5091

TITLE: USDA Needs Objective Criteria for Awarding Special Disaster Payments
RPTNO: RCED-83-54 DOCUMENT DATE: 11/02/82
ORGANIZATION CONCERNED:
Department of Agriculture
PRIMARY BUDGET FUNCTION(S):
351.0/Agriculture: Farm Income Stabilization

BACKGROUND:

In response to a congressional request, GAO reviewed the Department of Agriculture's (USDA) decision to award special disaster payments estimated between $200 million and $250 million in 83 counties in the Southwest. The review focused on: (1) USDA criteria for designating counties to receive disaster payments, and (2) the equity of the USDA decision concerning counties other than those designated in the Southwest.

FINDINGS:

GAO found that severe crop losses were sustained by many counties designated to receive special disaster payments, but some counties that received disaster aid had less crop damage than other counties, both in the Southwest region and elsewhere in the country, which were not designated for special payments. The review revealed that USDA did not have objective criteria to apply in designating counties to receive special disaster payments, but USDA officials instead used discretionary authority in an inconsistent manner. GAO believes that these payments should be awarded on objective criteria applied uniformly throughout the country.

RECOMMENDATIONS TO AGENCY:

RECOMMENDATIONS: The Secretary of Agriculture should establish objective criteria to be used in awarding special disaster payments.
STATUS: Action in process. Intended completion date: 06/83

AGENCY COMMENTS:

USDA has formed a departmental interagency committee which has begun work on developing criteria for special disaster payments. It is expected to complete its work by June 1983. The 60-day letter is expected to be signed by the Secretary and sent to the congressional committees by March 25, 1983.

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